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REPORT

on the Council recommendation for appointment of a Member of the Executive Board of the European Central Bank
(14862/2011 – C7-0312/2011 – 2011/0806(NLE))

Committee on Economic and Monetary Affairs

Rapporteur: Sharon Bowles

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CONTENTS

Page

PROPOSAL FOR A EUROPEAN PARLIAMENT DECISION..3

ANNEX (1) : CURRICULUM VITAE OF JÖRG ASMUSSEN..4

ANNEX (2) : ANSWERS BY JÖRG ASMUSSEN TO THE QUESTIONNAIRE 6

RESULT OF FINAL VOTE IN COMMITTEE..42

PROPOSAL FOR A EUROPEAN PARLIAMENT DECISION

on the Council recommendation for appointment of a Member of the Executive Board of the European Central Bank
(14862/2011 – C7-0312/2011 – 2011/0806(NLE))

(Consultation)

The European Parliament,

– having regard to the Council's recommendation of 4 October 2011 (14862/2011)[1],

– having regard to Article 283(2), second subparagraph, of the Treaty on the Functioning of the European Union, pursuant to which the European Council consulted Parliament (C7-0312/2011),

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

– having regard to the report of the Committee on Economic and Monetary Affairs (A7-0337/2011),

A. whereas, by letter of 4 October 2011, the European Council consulted the European Parliament on the appointment of Jörg Asmussen as Member of the Executive Board 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 (TFEU) and in the light of the need for full independence of the European Central Bank pursuant to Article 130 TFEU, and whereas in carrying out this evaluation, the committee received a curriculum vitae from the candidate as well as his replies to the written questionnaire that was sent out to him,

C. whereas the committee subsequently held a one-and-a-half-hour hearing with the nominee on 10 October 2011, at which he made an opening statement and then responded to questions from the members of the committee,

1. Delivers a favourable opinion on the Council recommendation to appoint Jörg Asmussen as Member of the Executive Board of the European Central Bank;

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

[1] OJ L 0, 0.0.0000, p. 0.

ANNEX (1) : CURRICULUM VITAE OF JÖRG ASMUSSEN

Curriculum Vitae

Jörg Asmussen
Born in Flensburg in 1966
State Secretary at the German Federal Ministry of Finance

Professional Career

Since July 2008	State Secretary at the Federal Ministry of Finance, responsible for:
-	Directorate-General I (Fiscal Policy and Macro-eco¬nomic Affairs)
-	Directorate-General VII (Financial Market Policy)
-	Directorate-General E (European Policy)
March 2003 to June 2008	Head of Directorate-General VII Financial Market Policy
October 2002 to February 2003	Head of Directorate E A Responsible for core issues of European affairs; General financial issues relating to European affairs
July 1999 to October 2002	Head of the Minister's Office and Private Secretary to the Federal Minister of Finance
1998 to 1999	Private Secretary to the State Secretary State Secretary's responsibilities covered European affairs, monetary and credit issues, and international financial and monetary policy
1996 to 1998	Officer in the division for international economic and monetary development, the International Monetary Fund and economic summits
Since 1996	Federal Ministry of Finance, Berlin
1994 to 1996	Project manager in the field of European economic, social and labour market policy at the Cologne-based Institut für Sozialforschung und Gesellschaftspolitik GmbH, a sociological research institute

Memberships and Mandates

- Member of the EU Economic and Financial Committee and the Eurogroup Working

Group
- Germany’s G7 and G20 Finance Deputy
- Member of the Financial Stability Board
- Alternate Governor at the World Bank
- Alternate Governor at the European Bank for Reconstruction and Development
- Chairman of the General Council of Germany’s Federal Financial Supervisory Authority
- Member of the Supervisory Board of Deutsche Telekom AG
- Member of the Supervisory Board of Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)
- Germany’s acting G20 Sherpa
- Chair of the G20 Working Group on the International Monetary System (IMS)
- World Economic Forum: Member of the Steering Board for the project on the future of the International Monetary System
- Member of the Group of Trustees of the Principles for Stable Capital Flows and Fair Debt Restructuring

<u>Education</u>

1991 to 1992	Master in Business Administration at Bocconi University, Milan
1988 to 1994	Studied economics at the University of Gießen and the University of Bonn Qualification: Diplom-Volkswirt (degree in economics); specialisation: monetary policy

ANNEX (2) : ANSWERS BY JÖRG ASMUSSEN TO THE QUESTIONNAIRE

A. Personal and professional background

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

Throughout my professional career I have been involved in different aspects of monetary, financial and business matters in the various positions I held.

Before I joined the German Ministry of Finance in 1996, I worked as project manager at the Cologne-based *Institut für Sozialforschung und Gesellschaftspolitik GmbH*, a research and consulting institute. I managed PHARE projects in accession countries in Eastern Europe and in the Baltics. My first position in the Ministry of Finance (1996 – 1998) was in the division for the World Economy, IMF and G7 affairs during the times of the Asian crisis. From 1999 to 2002 I was, first, Private Secretary to a State Secretary and then became Private Secretary and Head of the Minister's Office. In October 2002 I took over a sub-directorate in the European policy directorate and in March 2003, I was promoted to become Director General of the Directorate for Financial Market Policy and held this position for more than five years.

I have had a very broad responsibility for monetary, financial and business matters since I was appointed State Secretary in the Ministry of Finance in July 2008. Currently, I am in charge of three (out of nine) directorates:

Directorate I – fiscal policy and macroeconomic affairs, international financial and monetary policy serves as the Ministry's in-house think tank for economic policy, but it is also in charge of operational tasks such as the allocation of funds from the economic stimulus package in 2009 and the administration of the federal guarantee scheme. The international sub-directorate is i.a. responsible for the G7 and the G20 Finance Ministers' process, IMF affairs, bilateral relations outside Europe, multilateral development banks and debt restructuring.

Directorate VII – financial market policy deals with financial market regulation in the fields of banking, insurance, asset management and securities on the international (FSB and G20), European and national level. Moreover, Directorate VII is responsible for supervising of the Federal Debt Agency (Finanzagentur), KfW Banking Group, the Federal Agency for Financial Market Stabilisation (FMSA) and the Federal Financial Supervisory Authority (BaFin).

Directorate E – European policy is our core Directorate in tackling all issues related to the current sovereign debt crisis in some peripheral Eurozone countries. It is responsible for European Monetary Union, including ECB matters and bilateral relations in Europe. In addition, all budget related matters of European policy and the European Investment Bank (EIB) are handled in Directorate E.

From November 2009 until January 2011 I was also responsible for the sub-directorate for federal holdings, in particular federal real estate, and post-Treuhandanstalt (privatisation agency) responsibilities.

In addition, I have held various various mandates in supervisory boards of federal holdings and agencies. I am currently a member of the supervisory board of Deutsche Telekom AG and of Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ – the federal government's agency for economic co-operation and development). I chair the inter-ministerial steering committee of the Federal Agency for Financial Market Stabilisation (FMSA), which was established in late 2008 as Germany's banking rescue scheme. The steering committee is in charge of policy decisions in the field of financial market stabilisation and bank restructuring. I am the Chairman of the General Council of Germany's Federal Financial Supervisory Authority (BaFin) and I am a member of the government's expert committee on stock market affairs (Börsensachverständigenkommission).
Since becoming head of a sub-directorate in 2002 I have been tasked with significant managerial responsibilities related to the organisation of the Ministry, its personnel and budget. The three directorates in my scope of responsibilities comprise seven sub-directorates with 43 divisions and around 370 employees.

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

From day one of my professional career, I have worked in a European and / or international context. Please refer to the answer to question 1. for details.

Since 2003 – when I became Director General for Financial Market Policy (which at that time comprised the sub-directorate for international financial and monetary policy) - and to an even greater extent since I became State Secretary in 2008, I have been a member of several high-level European and international Committees and represent Germany in particular in the following functions:

- G7 Finance Deputy,
- G 20 Finance Deputy,
- Acting G20 Sherpa for the Federal Chancellor in 2011,
- Member of the Economic and Financial Committee (EFC),
- Member of the Euro Working Group (EWG),
- Member of the Board of Directors of the European Financial Stability Facility (EFSF)
- Member of the Financial Stability Board (FSB), Member of the FSB's Standing Committee on Standards Implementation
- Alternate Governor of the World Bank
- Alternate Governor of the European Bank for Reconstruction and Development (EBRD)
- Member of the Working Party No 3 (WP 3) of the OECD

As Director General for Financial Market Policy, I was member of the Financial Services Committee (FSC) and chaired an ad-hoc working group on financial in-tegration in 2003/04.

I have accompanied the German Minister of Finance to the meetings at Ministe-rial level of the Eurogroup, the ECOFIN, the EIB, the EBRD, the G7, G8 and G20 as well as the IMFC at the IMF, and repeatedly I represented him in these meetings if he was unable to attend.

As Director General for Financial Market Policy I was responsible for bilateral relationships with all countries outside the EU. Here I focussed on the USA, China and African countries. As State Secretary I have been responsible for all bilateral relationships of the Finance Ministry inside and outside Europe. Here the focus is clearly on the EU Member States, but I have continued to maintain close ties in particular to the USA and African countries as much as time per-mits.

In 2011 I became Co-Chair of the G20 Working Group (consisting of treasury officials and central bankers) of the Reform of the International Monetary Sys-tem. I am a steering board member of the World Economic Forum's project on the future of the International Monetary System and I was appointed to the Group of Trustees of the Principles for Stable Capital Flows and Fair Debt Re-structuring

3. Please highlight the main aspects of your academic background and most relevant publications on monetary and economic policy and financial regulation matters.

I studied Economics at the Universities of Gießen and Bonn from 1988 to 1994 and specialised in Monetary and Exchange Rate Policy at the Institute for Inter-national Economic Policy in Bonn. I obtained a Master's degree in Bonn with a thesis on "The implications of inflation for growth – a theoretical and empirical analysis" ("Die Implikationn von Inflation für Wachstum – eine theoretische und empirische Analyse"). In 1991/92 I participated in an MBA-programme at Bocconi's Scuola di Direzione Aziendale in Milan, Italy. There I specialised in strategy and organisation.

I published the following articles and contributions:

- Asmussen, Jörg; Bruch, Eva: Nobelpreis für die Spieltheorie: Die Methoden der Spieltheorie und ihre Anwendung auf Arbeitsmarktfragen, 1995
- Asmussen, Jörg; Schneider, Carsten: Haushaltskonsolidierung heißt Gerech-tigkeit für kommende Generationen, 2002
- Asmussen, Jörg: Rating-Agenturen und Finanzaufsicht;
  Betriebswirtschaftliche Forschung und Praxis, Heft 3/2005
- Asmussen, Jörg; Mai, Stefan; Nawrath, Axel: Zur Weiterentwicklung der EU-Finanzmarktintegration; Zeitschrift für das gesamte Kreditwesen 4/2004
- Asmussen, Jörg: Ein Jahr Pfandbriefgesetz aus Sicht des Bundesministeri-ums der Finanzen;
  Immobilien & Finanzierung, Juli 2006
- Asmussen, Jörg: Verbriefungen aus Sicht des Bundesfinanzministeriums;
  Zeitschrift für das gesamte Kreditwesen 19/2006
- Asmussen, Jörg: Politische Antworten auf die Finanzmarktkrise;
  Neue Gesellschaft Frankfurter Hefte 11/08
- Asmussen, Jörg: Politische Antworten auf die Finanzmarktkrise;
  WPg - Die Wirtschaftsprüfung 15. November 2008
- Asmussen, Jörg: Der Pfandbrief - eine Stütze des deutschen Finanzsystems;

Immobilen & Finanzierung 23 - 2008

- Asmussen, Jörg: Mastering Global Financial Crises: A German Perspective;
  The Washington Quarterly, July 2009
- Asmussen, Jörg: Finanz- und wirtschaftspolitische Herausforderungen für Deutschland und Europa;
  ifo Schnelldienst 4/10, 26. Februar 2010
- Asmussen, Jörg: Die KfW als Partner des Bundes und der Wirtschaft in der Krise;
  Unternehmermagazin 3/2010, Juni 2010
- Asmussen, Jörg: Restrukturierungsverfahren für Kreditinstitute;
  Die Wirtschaftsprüfung 13/2010, 1. Juli 2010
- Asmussen, Jörg: Neue Eigenkapital- und Liquiditätsvorschriften;
  VDMA-Nachrichten, Oktober 2010
- Asmussen, Jörg: Die Verhandlungsziele der Bundesregierung bei der EU-Umsetzung von Basel III;
  Recht der Finanzinstrumente 2/2011, 21. März 2011
- Asmussen, Jörg: Umbruch im Weltwährungssystem: Sollte die Zeit freier Wechselkurse beendet werden?;
  ifo Schnelldienst 7/11, 8. April 2011
- Asmussen, Jörg: Position des BMF zur Reform der EU-Einlagensicherungsrichtlinie;
  Zeitschrift für das gesamte Kreditwesen 15/2011, 1. August 2011

In addition, I published a number of articles in newspapers and I am currently working on two contributions for collected editions. One is on the Euro ("The Euro: Past, Present and Future") for a compilation on currencies, edited by Bloomberg's Sara Eisen, to be published by McGraw Hill at the end of 2011. The other is on the financial crisis and developing countries for a compilation on development aid to be published in 2012.

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

I have been party to many decisions at the national, European and international level in economic and financial matters; the most important were:

- Since the outbreak of the sovereign debt crisis in some peripheral Eurozone countries I have been heavily involved in the crisis management, including inter alia setting up the EFSF, reform of the economic governance of the Eu-rozone, preparing the ESM.

- In the aftermath of the collapse of Lehman Brothers in fall 2008, I coordi-nated, together with Jens Weidmann, who at that time was at the Chancel-lor's office, the German government's response to the financial crisis, in-cluding inter alia stabilizing the bank Hypo Real Estate (HRE), drafting the law on financial market stabilisation, setting up the Financial Markets Stabi-lisation Fund and – later – agency (SoFFin/FMSA) and becoming Chairman of its inter-ministerial steering committee. In this capacity I then dealt inter alia with the WestLB and Commerzbank cases. This task involved, however, not only the national level, but also the European (i.a. state aid aspects) and international coordination of the response.
- To counteract the financial crisis spilling over to the real economy, the German government decided in 2009 to set up an economic stimulus package and I was again involved in its design and implementation and was a member of the inter-ministerial steering committee of the so called fund for Germany (Deutschlandfonds). Thus, I dealt i.a. with the rescue of Opel, General Motor's branch in Germany.
- I prepared and participated in all G20 Leaders' Summits until now dealing especially with the financial repair and reform agenda after the financial crisis. Important summits before that were the 1999 Cologne G8 dealing with bilateral debt relief and the Gleneagles G8 summit in 2005 dealing with multilateral debt relief. At the G20 summit in Seoul in 2010, I was heavily involved in designing the IMF reform package.
- As regards financial markets regulation I would like to highlight that I was in charge of framing the German position for negotiations on the European level of – for example – the Markets in Financial Instruments Directive, the Directive on takeover bids and the Payment Services Directive during the German Council Presidency in 2007. On the national level I lead i.a. the implementation of the former projects and of Basle 2.

5. 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.

6. How will you keep your independence while coming straight away from Mr Schäuble's department?

There are quite a number of successful central bankers who started their respec-tive careers in the Treasury or in another Ministry, whose independence as cen-tral bankers is nevertheless undisputed. In Germany, this holds particularly true for Hans Tietmeyer and Jürgen Stark, or, to give a very recent example, for the President of the Bundesbank Jens Weidmann, who came into office straight from the Chancellor's office. Another recent example is Klaas Knot who be-came Governor of De Nederlandsche Bank coming directly from the Dutch Ministry of Finance in July 2011. On the European level one can think of Jean-Claude Trichet and Mario Draghi and even beyond Europe, changing from a po-sition in the government to the central bank is not unusual, recent examples are the Governor of the Bank of Canada and his Deputy, Mark Carney and Tiff Macklem. Another example is Lesetja Kganyago from the South African Re-serve Bank.

I am convinced that it is crucial for any kind of public office that one adopts the mandate of the institution, the institutional context and culture as well as the his-torical background of the institution as one's own. And I am very familiar with all these aspects of the ECB as an institution, since I closely co-operated with the ECB and ECB staff in various groups, committees and settings since its es-tablishment and even before that with the European Monetary Institute. If I shall become an ECB board member, my loyalty belongs to the Euro and the ECB.

7. What would be the guiding objectives you will pursue during mandate at the European Central Bank?

The guiding principle will be the Treaty mandate of the ECB, especially the ob-jectives and the tasks of the ECB. This means the primary objective is to main-tain price stability and – without prejudice to price stability – to support the gen-eral economic policies in the Union. In addition, I would like to highlight the ECB's task to contribute to the stability of the financial system as laid down in the Treaty as another guiding objective.

I will act with independence in line with the Treaty mandate of the ECB, acting in the general interest of the citizens of the European Union and especially the Eurozone as a whole. I am fully aware that no board member of the ECB should act as an agent of the Member State he or she is citizen of.

I highly value competence, clarity, coherence and credibility.

B. ECB monetary policy

8. 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?

The Treaty gives the ECB the mandate to maintain price stability over the me-dium term for the euro area as a whole. Looking at the average inflation since the ECB started conducting monetary policy, one cannot but conclude that the ECB has been very successful. The average inflation rate in the euro area stands at around 2% as compared to an average inflation rate of around 3% of the Deutsche Mark during its last 30 years. This success has been achieved despite numerous headwinds in the euro area, ranging from large increases in commod-ity prices to downward inflation pressure stemming from the very severe and global economic recession.

What is even more important is the strong believe and unambiguous trust of the public and financial markets that the ECB will meet its objective. Inflation ex-pectations have been anchored around levels consistent with the Governing Council's aim to maintain inflation rates below, but close to, 2% over the me-dium term. Even in the period of the severe economic crisis, with inflation rates turning negative for a few months in the euro area, medium term inflation ex-pectations remained anchored, in line with the ECB's Governing Council objec-tive. This bears witness to the very high degree of credibility of the ECB's monetary policy, which is the major asset for a central bank. I see no reason for changing this successful monetary policy course.

9. 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. Building on the lessons from the current crisis, should the ECB disregard the evolution of asset prices?

The decline in the level and in the variability of goods and service price inflation is a clear stylised fact that characterises the last 30 years of economic develop-ments across the world. One important factor behind these developments is the decisive improvement in the quality of the policymaking institutions and in the wide acceptance of price stability as a social value that ought to be preserved in the interest of all citizens. Structural change also in the form of globalisation of the world economies has probably contributed to the achievement of price

sta-bility but sound policymaking remains the essential driver.
However, monetary policy cannot take for granted the stability of domestic good and service inflation. Very close monitoring of all relevant developments is war-ranted.
At the same, the financial crisis that started in mid-2007 is only the last, ex-tremely serious episode that confirms how important it is for central banks to monitor asset price developments. The international debate about the financial and economic crisis in academia and among economic policy makers, as I ob-serve it, led to a wide-spread pro-active view on the role of the state and of cen-tral banks when it comes to macro economic aberrations in general and unfa-vourable asset price developments in particular. The strategy of "wait and see" has clearly been adjusted, or as Professor Ottmar Issing just recently accurately put it: "The question of what to do once a bubble bursts remains. But it should come only second, in case the evolution of a major bubble in spite of all efforts could not have been prevented."
This is not akin to targeting prices of certain assets, but rather to avoid unsus-tainable developments in asset prices to degenerate into full fledged financial crisis that – even far away in the future – could potentially hinder the ability of the central bank to maintain price stability and could, hence, be very costly in terms of output and price stability.
The ECB's monetary policy strategy incorporates asset price dynamics into the policy deliberations, not as a target, but rather as leading indicators of future economic activity through their impact on wealth, the cost of capital and the balance sheet positions of various euro area sectors. Moreover, the medium-term orientation of the ECB's monetary policy allows taking into consideration the risks to financial stability, which normally build-up over longer horizons com-pared to other economic shocks. In particular, within the context of the ECB's monetary analysis it is possible to follow the interactions between price forma-tion in asset markets and credit and liquidity creation in the financial sector, not least as financial imbalances are often accompanied by excessive monetary and credit growth. This information contributes to the overall assessment shaping the ECB's medium to long-term outlook for price developments.
Overall, the medium term orientation of the ECB's monetary strategy and the prominent role of the monetary analysis within the ECB's broader stability ori-ented framework for monetary policy making, ensures that the implications of financial imbalances and asset price misalignments and their unwinding are given due consideration in the ECB's formulation of monetary policy decisions.

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

In answering this question, it is essential to distinguish between temporary and lasting effects of commodity price increases and, whether they risk triggering second round effects. In the case of temporary effects, monetary policy does not need to play an active role, given the medium-term orientation of monetary pol-icy. Commodity price increases, however, are monetary-policy relevant in case of sustained upward trends in commodity prices or if the initial temporary ef-fects start being translated into second-round effects on consumer price inflation through wages and price-setting and through higher inflation expectations. This could for instance take place on account of indexation of wages and prices to past inflation, or more generally affect inflation expectations. An adjustment of the monetary policy stance could be required in these cases to return to a situa-tion of price stability and well-anchored inflation expectations over the medium term.

On the second part of the question, there is no longer-term trade off between growth and inflation. Maintaining price stability over the medium term is the central and necessary contribution monetary policy can make to fostering sus-tainable economic growth and job creation in the euro area economy.

11. What is your view on the heterogeneity of monetary conditions across the euro area and its impact on unitary monetary policy of the ECB?

Some degree of heterogeneity is normal in a monetary union. Current heteroge-neity in monetary conditions within the euro area - by which I assume you refer to differences in inflation and economic growth - mainly result from a correction of unsustainable macroeconomic developments in a few countries that had often been characterised by asset price booms, current account deficits, and a highly leveraged banking and private sector.

The ECB’s monetary policy is geared towards price stability over the medium term for the euro area as a whole. Effects of country-specific conditions on the conduct of monetary policy arise only to the extent that such developments (are expected to) affect developments at the level of the euro area via spill-over to other countries, through the normal trade-channel or through contagion or loss of confidence, in a way that may adversely affect price stability in the euro area over the medium term. The very existence of a single monetary policy and thereby a uniform policy interest rate across the euro area countries does not al-low for using monetary policy to influence country-specific developments. This is the task of other economic policies, a broad range of structural policies and fiscal policies as well as wage policies.

12. Do you judge that there has been overreliance in euro area banks on liquidity provision by the ECB?

As you know, in October 2008 in response to the further intensification of the financial crisis after the default of Lehman Brothers, the ECB has introduced a number of bank-based (given the financial structure of the euro area) non-standard monetary policy measures, including fixed-rate full-allotment procedures in all its refinancing operations. These procedures imply that euro area banks are free to seek unlimited amounts of liquidity from the Eurosystem at their own choosing and against a fixed rate, as long as these banks are able to provide a sufficient amount of eligible collateral. In principle, the ECB does not judge a bank according to its behaviour at refinancing operations, as the provision of central bank liquidity is one of the core tasks of a central bank. In addition, owing to the structure of the financial system, banks demand in any such operation can undergo significant fluctuations. At the same time, due to external funding difficulties, the banking systems of several euro area countries currently display an unusual degree of reliance on the ECB's operations. In the more severe cases, these countries have economic adjustment programmes in place which should lead, over time, to a gradual reduction of the elevated demand for central bank liquidity displayed by the banks of these countries. The Governing Council of the ECB is very closely monitoring the situation with a view to ensure that liquidity support does not hamper the implementation of monetary policy through steering short-term money market interest rates in line with the monetary policy stance.

13. 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?

A broad consensus exists that maintaining stable prices over the medium-term is the best contribution that monetary policy can make to sustainable economic growth and job creation. It is nowadays well established that a central bank can-not influence economic growth in a sustainable manner by changing the money supply. Price stability, for example, improves the transparency of relative prices, reduces inflation risk premia in interest rates and reduces distortions of tax and social security systems. Hence, price stability is the most important contribution that monetary policy can make to achieve a favourable economic environment and a high level of employment. To put it shortly: Price stability is a foundation to growth. Article 127 of the Treaty on the Functioning of the EU assigns the Eurosystem the primary objective of maintaining price stability. Price stability is therefore not only the primary objective of the ECB's monetary policy, but also an objective of the EU as a whole. The ECB's Governing Council has set a clear numerical benchmark for the achievement of price stability. It aims to maintain inflation below, but close to, 2% over the medium term, and it has fully accom-plished this goal from the start.

Without prejudice to the objective of price stability, the Treaty envisages secon-dary obligations of the ECB in support of the general economic policies in the Union, which include balanced economic growth and full employment. The Treaties thus establish a clear hierarchy of objectives for the Eurosystem, which clarifies that a credible achievement of price stability fosters overall macroeco-nomic stability to best insulate the economy from consequences of unforeseen shocks. In fact, during the financial crisis, monetary policy reacted to economic and financial shocks with the appropriate medium-term orientation to ensure a solid anchoring of inflation expectations and to stabilise macroeconomic devel-opments. The ECB gave ongoing support to the economy by making its mone-tary policy stance very accommodative without negatively affecting medium-term term outlook for price stability, thereby firmly anchoring medium-term in-flation expectations.

14. What do you think of the "economic governance package" as recently adopted? What further steps would you see as necessary to strengthen the economic governance in the EU?

I welcome the recent adoption of the economic governance package, one year after the publication of the Commission's legislative proposals, which has sent a positive signal of confidence to EU citizens and financial market that is espe-cially important in the current situation. There can be no doubt that the agreed measures constitute a step in the right direction of reinforced and broadened economic surveillance. A key issue is now rigorous application of the new legis-lation and the accompanying declarations (such as the 'comply or explain' rule) not only to the letter but also in spirit. This requires that all pertinent national authorities take ownership of the agreed rules. The review clause included in the legislation will be an opportunity to further enhance economic governance in the EU and the euro area. It will enable to reinforce the rules-based system and cor-rect some remaining weaknesses in economic governance.

To strengthen economic governance further, Member States should implement strong national fiscal frameworks, such as ‘debt brakes’ in national constitu-tions. Further institutional reforms should be carried out to strengthen euro area governance, such as providing the EFC/EWG with a full-time chairperson. Be-yond that, the commitments under the Euro Plus Pact and the Europe 2020 Strategy could be enshrined in secondary legislation and made binding, in the form of a ‘European Competitiveness Pact’. Further progress in the implementa-tion of the Single Market, in particular in the field of services, to enhance the EU’s growth potential is also important. Finally, further progress towards eco-nomic union would be incomplete without additional steps to a greater European dimension in the regulation and supervision of the financial markets in the EU, and especially in the euro area, and in particular with regard to the tools of fi-nancial crisis management (resolution fund, deposit guarantee schemes). Eco-nomic union will need to be complemented by an appropriate progress towards a more integrated fiscal and political union, requiring treaty changes.

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

The European Stability Mechanism (ESM) and the European Central Bank (ECB) have different mandates to fulfil. The ESM will be activated if indispen-sable to safeguard the stability of the euro area as a whole, providing stability support under appropriate conditionality to the benefit of the ESM Members, and as such it will have a broad macro-financial orientation. The ECB has been charged with the primary objective to maintain price stability in the euro area over the medium-term. The ECB and ESM mandates are thus complementary to each other, not least as price stability is a necessary condition for broad macro-financial stability.

Moreover, the ESM Treaty further specifies the involvement of the ECB in the European Stability Mechanism (ESM) in four main areas.

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 war-ranting an activation of the ESM.

Second, where activation of the ESM is warranted, the ECB will liaise with the Commission

and 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 Memoranda of Understanding (MoU) containing appropriate policy conditionality, and to the subsequent monitoring and implementation of such MoU.
Fourth, in line with the conclusions of the Euro Area Summit on 21 July, it is expected that the activation of secondary market interventions by the ESM will be on the basis of an ECB analysis recognising exceptional financial market cir-cumstances and risks to financial stability.
Securities issued by the ESM are expected to qualify as eligible collateral for the ECB's monetary policy operations, as is the case for the EFSF. However, in view of the prohibition on monetary financing laid down in Art. 123 TFEU, the ESM will not be an eligible counterpart for the ECB's monetary policy opera-tions.
The ECB's primary objective is and remains the maintenance of price stability in the euro area. Any activities related to the operation of the ESM are, in any case, of an auxiliary and assisting nature and would be undertaken by the ECB on the clear condition of a full understanding that they are without prejudice to the fulfilment of the ECB's mandate as laid down in the EU Treaties.

16. The idea has been floated recently to involve the ECB in leveraging the EFSF operations. What are your views on this?

There is broad consensus that the EFSF resources should be used as efficiently as possible. This serves the dual goal of maximising the benefit for the euro area as a whole associated with every euro that is spent as part of any country pro-gramme while protecting European taxpayer's money in the process. In this re-gard it is also essential that the governments swiftly implement the new instru-ments of the EFSF in line with the Heads of State and Government decision of 21 July. It is important the EFSF has the capacity to fulfil its function for safe-guarding financial stability in an effective and efficient manner.
With regard to the ECB involvement in leveraging the EFSF, it should be clear in my view that the ECB will always strictly adhere to both the spirit and the le-gal dimension of the monetary financing prohibition contained in the Treaty.
Given the EFSF's sole purpose to provide financing to euro area Member States in financial difficulties, involving the ECB is such financing would contravene the monetary financing prohibition under Article 123 TFEU. However, inde-pendent from such legal assessment,

EFSF financing via the ECB will be per-ceived as the ECB breaching the spirit of the Treaty provisions constituting a se-rious risk for ECB's credibility and reputation. With the perception that mone-tary policy would be subjugated to fiscal policy concerns, the key principle which has been the hallmark of modern central banking monetary policy frame-works – that of central bank independence - would be broken, and the ability of monetary authorities to deliver price stability would be compromised as a result.

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

'Eurobonds' is a term that encapsulates a variety of different ideas. Proposals for Eurobonds differ inter alia according to their guarantee structure, capital struc-ture and governance structure, hence the implications for economic governance in each case are not uniform. That said, all Eurobond proposals imply common debt issuance between euro area Member States and some form of mutual guarantee. Where this guarantee is joint and several, it would be precluded by the Treaty as it stands. More gener-ally, such mutual guarantees necessarily reduce the incentive for sound fiscal (and macro) policies for the participating countries. It is crucial that the govern-ance structure of any such arrangement ensures that these incentive-weakening effects are fully offset by other mechanisms. Current proposals do not seem to provide for such incentive-compatible frameworks without substantial changes to the EU governance structure (including Treaty changes). Moreover, to the ex-tent that such issuance would equalise interest rates between participating Mem-ber States, it would create an implicit subsidy between fiscally sound and fis-cally less sound Member States, further weakening incentives for fiscal disci-pline within EMU.

18. Do you think the ECB should need further new instruments to cope with the euro area crisis?

Let me first state that the ECB has provided to the euro area banking system an exceptional high degree of liquidity support throughout the financial crisis and is committed to continue to do so as long as such support is needed. Euro area banks have since October 2008 the possibility to obtain, against a broad range of eligible securities as collateral and against a fixed rate, unlimited amounts of central bank liquidity (at any refinancing operation of the ECB at maturities ranging from 1 week to currently three months). This fixed-rate full allotment procedure effectively provides to banks an insurance against liquidity risk at relatively low costs. Such insurance is, under current circumstances, in high de-mand and only very costly or impossible to obtain in the interbank markets.

While emphasising the temporary nature of this instrument, the ECB has already stated that this measure will remain in place for as long as needed but at least until the beginning of 2012. The ECB is constantly reviewing the overall situa-tion.

Finally, to the extent that the current problems in euro area financial markets go beyond liquidity constraints on the part of solvent banks and rather relate to sol-vency concerns, solutions need to be sought from other sides, notably national governments who would need to provide support measures for recapitalisation, in line with the findings of the recent stress tests, if no market funding for the banks concerned could be obtained. The root cause of the current problems, however, cannot and should not be dealt with by means of central bank interven-tion. Therefore I do not see the need for new instruments for the ECB.

19. What role should sovereign ratings have in your view on ECB policy? Do you think that ECB should accept as a rule all euro area government bonds as securities?

In the assessment of the credit standards of eligible assets as collateral at mone-tary policy operations, ratings from credit rating agencies are one, but not the only, input used. The Eurosystem also takes into account other features guaran-teeing a high risk protection. In the case of a country under an adjustment pro-gramme, the country's compliance with the programme and the ECB’s assess-ment of the programme is of crucial importance.

As regards euro area government bonds, as with all other securities, the Euro-system has set the standards in its Eurosystem Credit Assessment Framework. The Eurosystem rightly reserves the right to determine whether an issue, issuer, debtor or guarantor fulfils its requirements for high credit standards on the basis of any information it may consider relevant and may reject, limit the use of as-sets or apply supplementary haircuts on such grounds if required to ensure ade-quate risk protection of the Eurosystem in line with Article 18.1 of the Statute of the ESCB.

20. What is your view on a European Credit Rating Agency?

The possible establishment of a new independent European Credit Rating Agency may have potential benefits, notably increasing competition among rat-ing agencies, thereby leading to better assessments, possibly also being able to take better into account some European financial peculiarities. However, such an agency would need to remain fully independent from political or other influ-ences. It may also take some time until such an Agency could credibly issue rat-ings that are rigorous, sound, continuous, and subject to validation based on his-torical experience, and thus in compliance with the features required by the CRA Regulation.

Having said this, I think it is important to point to the fundamental problem of over reliance on external ratings. The FSB, the EU Commission and the Basel Committee on Banking Supervision (BCBS) are currently undertaking important work in this respect.

21. What is your view on the Securities Markets Programme (SMP)? In particular, in your view does it turn the ECB to a de facto fiscal player and thus possibly endanger its independence?

The Securities Markets Programme (SMP) as communicated by the ECB had been introduced in May 2010 to support the transmission of monetary policy de-cisions on account of dysfunctional financial market segments, with a view to ensuring price stability for the euro area as a whole. The decision to start buying bonds again in August 2011 was taken in view of the significant risk of some government debt securities markets becoming dysfunctional and tensions spreading to other markets in the absence of intervention. Dysfunctional securi-ties markets – and government bond markets in particular – can have severe ad-verse effects on the transmission of the monetary policy stance to the real econ-omy (and ultimately to prices). From an outside perspective it is almost impos-sible to judge, if and to what extend such adverse effects on the transmission of the monetary policy stance to the real economy take place in reality. The publi-cations of the ECB, e.g. the monthly bulletin, should provide as much informa-tion as possible. From my perspective, it is essential that SMP will be of a tem-porary and limited nature only and that the end of the scheme is foreseeable since the enhanced EFSF can undertake secondary market operations. A second important aspect is that secondary market operations are fully sterilized so that they do not hinder the implementation of monetary policy by steering short-term money market interest rates in line with the policy monetary stance.

The ECB is only aiming to stabilise those markets that stopped functioning normally. But the first – and absolutely necessary – condition for success is that governments accelerate fiscal consolidation and are unwavering in their imple-mentation of the tough measures that are indispensable. Market disruptions, in the case of the securities markets of some member countries, are due to the fact that governments, individually, still have to ensure their full credibility in the markets, and that the peer surveillance called for by the Stability and Growth Pact was not exercised correctly. It is undisputed that the ECB was at times the only stakeholder in the euro area fully capable of acting, nevertheless fiscal and monetary policy shall be clearly separated as a matter of principle. Therefore, the euro area has to act and implement the necessary prerequisites (adjustment measures on the national level, enhanced EFSF, ESM, better governance struc-tures) to regain full capacity to act and thus enable the ECB to withdraw from these activities, as soon as market conditions permit.

22. For when do you foresee the ECB's effective exit from the current non-standard measures?

The ECB's non-standard monetary policy measures have been taken to enhance the transmission process of monetary policy, in view of impaired financial mar-kets. The exit from these measures therefore is linked to the evolution of finan-cial market conditions over time, which in turn depends to a large degree on ap-propriate national policies to be decided upon and implemented. Decisive fiscal consolidation and structural reforms in financially stressed countries would limit risk premiums in bond yields. Decisive measures for recapitalisation of banks with financial problems would contribute substantially to reviving the access of these banks to money markets, allowing the ECB to reduce its intermediation role.
The SMP – as all other non-standard monetary policy measures the ECB has taken in response to the crisis – is temporary in nature. It is complementary rather than supplementary to the Governing Council's decisions on its key inter-est rates as it enhances the transmission process of monetary policy. As all non-standard monetary policy measures, the SMP should be phased out as soon as possible, once the conditions that led to the initiation of the programme have dissipated.

23. Do you foresee the stance of the ECB to change as regards the strong opposition towards a restructuring of Greek debt?

As regards the question of debt restructuring in Greece, the ECB has been con-stantly insisting on three key messages. First, the ECB said that any participa-tion by the private sector had to be voluntary in nature, and this is being fol-lowed. Second, the ECB said that it was necessary to avoid a 'credit event', and it also seems likely that this will be avoided. Third, the ECB also said that a 'se-lective default' should be avoided so that Greece honours its debt obligations and strictly adheres to the agreed programme and, in so doing, helps to ensure that costs in terms of losses, spillovers and contagion to euro area peers are minimised. The decisions taken by the Heads of State or Government on 21 July include necessary precautions to address the ECB's concerns in this regard.

With regard to the specific private sector involvement foreseen for Greece, the euro area Heads of State or Government on 21 July recognised that the approach followed for Greece was exceptional and unique in response to an exceptional and unique situation. All other euro area member countries solemnly reaffirmed their firm determination to honour fully their own individual sovereign debt and their commitments to sustainable fiscal consolidation and structural reform. The ECB views this firm determination as absolutely fundamental and sees the credibility of all the sovereign debt a decisive element for ensuring financial stability in the euro area as a whole.

In light of the envisaged second euro area/IMF programme for Greece, which was in principle also decided on 21 July, a debt sustainability analysis must be provided by the Troika. The programme and the private sector involvement have to be designed in a way to maintain or achieve a sustainable debt situation for Greece. The ECB is part of the Troika and will follow its stance on ensuring fi-nancial stability in the euro area as a whole.

24. How will you ensure transparency regarding the SMP and Covered Bond Purchase Programme?

The ECB fully subscribes to the principles of transparency and openness. But there can be conditions which call for a deviation from these principles. As re-gards giving more details about transactions conducted in the context of the SMP and the CBPP, this could harm the effectiveness and efficiency of these programmes. It could allow financial market participants to anticipate purchases by the Eurosystem, and develop trading strategies that would allow it to benefit from the ECB's interventions. This would imply that the Eurosystem would need to purchase larger amounts of bonds to achieve its desired effects. As re-gards the purchases in the context of the SMP that are still ongoing, the ECB al-ready provides on a weekly basis information on the amounts for which it inter-vened on bond markets on an aggregate basis.

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

Large cross-border payment flows between banks in the euro area are a normal feature of monetary union. Before the financial crisis, the flows tended to be broadly balanced across countries: a country's banking system could broadly compensate payment outflows associated with net imports of goods and services or the acquisition of assets abroad with inflows, notably by raising funds in the cross-border interbank market. With the financial and sovereign debt crisis, this has no longer been the case: outflows are larger than inflows for the banking systems of some euro area countries (such as Greece, Portugal and Ireland), and vice versa for other euro area countries (such as Germany). These imbalanced cross-border payment flows imply that the banking systems need more central bank liquidity in some countries than in others where commercial bank money is inflowing. As a result, the net distribution of liquidity throughout the Eurosys-tem is uneven: some National Central Banks provide in net more liquidity (in re-lation to the size of their countries' banking systems) than others. This leads to intra-Eurosystem balances: some NCBs develop a claim vis-à-vis the ECB, oth-ers a liability. These NCB balances are called "TARGET2" claims and liabilities because the imbalances in the payment flows across countries emerge in the payment system used to process and settle such flows in central bank money, which for the Eurosystem is TARGET2.

The TARGET2 imbalances of NCBs (which in total add up to zero) thus reflect the uneven distribution of central bank liquidity by the NCBs of the Eurosystem. This uneven distribution within the Eurosystem provides stability as it allows fi-nancially sound banks – even those in countries under financial stress – to cover their liquidity needs, against eligible collateral. This contributes to the effective transmission of monetary policy to the wider euro area economy, and thereby to maintaining price stability in the euro area over the medium term.

In Economic and Monetary Union, the claim of an NCB in TARGET2 does not, in itself, reflect the NCB's exposure to financial risk. The risk exposure of the Eurosystem relates to the provision of liquidity to banks, and thus to the mone-tary policy operations themselves. The operational risk is mitigated by a sound risk management framework, and any residual risk is, as a rule, shared among the NCBs of the Eurosystem in accordance with their respective shares in the ECB's capital; it is not related to the TARGET2 positions of individual central banks.

26. 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.

Substantial and comprehensive structural reforms need to be implemented by all euro area Member States in order to strengthen their competitiveness and em-ployment, increase the flexibility of their economies and enhance their longer-term growth potential. Ambitious structural reforms are crucial for restoring confidence.

The instruments of economic policy coordination should be geared at supporting those objectives. With the introduction of the European Semester, both stability and convergence programmes and the national reform programmes, including the commitments made under the Euro Plus Pact, are now submitted and as-sessed at the same time to enhance consistency of policy recommendations at the European level. It is now crucial that the country-specific policy recommen-dations issued are fully implemented. Euro area Member States should go fur-ther by frontloading ambitious reforms. Also, under the new "Excessive Imbal-ances Procedure", Member States where major economic and fiscal imbalances have accumulated will be obliged to correct these imbalances by implementing appropriate economic and fiscal policy measures. It is therefore crucial that the newly agreed surveillance instruments over Member States policies are force-fully implemented to support the objectives for the strategy for jobs and growth. By ensuring price stability and contributing to financial stability, the ECB also contributes to a growth-enhancing environment.

When thinking about structural reform, highest priority should be given to the objectives of strengthening competitiveness and enhancing growth potential of the European Union in view of competition with developed and emerging coun-tries on a global scale. This relates to various fields such as education, services, labour markets, sustainability, research and development and the strengthening of the internal market. Tackling these fields at the same time may fuel the whole process and have reciprocal positive effects. Concrete measures in these areas could be:

- In education, sufficient public investment, accessibility to education irre-spective of social rank and cross-border recognition of degrees.
- In the services industries, further liberalisation for example in crafts closed professions. The health services industry bears also great potential.
- In the labour markets, further cross border liberalisation. However, it is worth remembering the fact that labour is multidimensional. It is not only a factor of

production, but also an important means of participation and inclu-sion in society. The freedom of collective bargaining should not be ques-tioned; however, all forms of index-based wage calculation should be abol-ished.

- As regards sustainability, fiscal sustainability is key in view of demographic change. The ageing society as well as migration and mobility in the internal market and beyond pose challenges for the sustainability of social security systems. The efficiency and effectiveness of the public sector have to im-prove.
- In research and development, access to venture capital should be made eas-ier.
- Trade barriers – open and hidden – should be further removed to strengthen the internal market, while at the same time a high level of consumer protec-tion shall be maintained, especially in financial services.

27. 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)?

Let me first say that the Economic and Monetary Union (EMU) is not a closed shop, as the example of Estonia has just recently shown.

By signing the Treaty, the Member States that have joined the EU since 2004 have committed to adopting the euro. The convergence framework, as embed-ded in the Treaty and Protocol, stipulates that Member States can adopt the euro once they have achieved a high degree of sustainable convergence which in turn implies that there is no predefined timetable for joining the euro area.

Not least against the background of the experiences of the first 13 years of EMU, let me emphasise that, in addition to the four nominal convergence crite-ria, the Treaty also stipulates a set of additional considerations, notably "the in-tegration of markets, the situation and development of the balances of payments on current account and an examination of the development of unit labour costs and other price indices."(Art. 140 TFEU). These aspects, as well as the sustain-ability of the convergence achieved, will play an important role in the assess-ment.

Participation in the ERM II constitutes a crucial element of the convergence process. It demonstrates whether a Member State can achieve key policy objec-tives, such as maintaining price stability, fiscal discipline and competitiveness, while respecting the normal fluctuation margins without severe tensions - and in particular without devaluation of its bilateral central rate against the euro on its own initiative - for at least the last two years before the convergence examina-tion.

28. What is your view on the taxation of short-term financial transactions? 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?

In the current debate various types of taxes on financial activities are being de-bated: Financial Transaction Tax (FTT), Financial Activities Tax (FAT) or the Tobin tax. The usefulness of any tax must be evaluated from two perspectives: its objective in steering behaviour and the revenue function.

I would support the introduction of a comprehensive financial transaction tax (FTT). Such a tax should preferably be introduced on a global level. Given the intense debate we have had on this issue at the G20 summit in Toronto this seems out of reeach in the near term. As a second best an introduction in the European Union could be envisaged, a third best option an introduction in the Euro area has to be examined

On the steering function: While proponents of any kind of tax of financial activi-ties often stress the hope for reduced volatility as a result of such taxes, this claim does not stand up to the majority of theoretical and empirical analysis. In-deed, the resulting increase in transaction cost would reduce market liquidity and could lead to an increase in volatility. The FTT as an instrument should therefore not be seen in isolation. It must be considered alongside an enhanced regulation especially of high-frequency trad-ing and evaluate against the alternatives Member States (or in the future possi-bly the European Union) have to raise revenues. On balance I am looking for-ward to the legislative proposal the EU Commission will put forward soon.

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

The external representation of the euro area reflects the institutional set-up of the EMU: as monetary and exchange rate policies are competencies of the Un-ion, they are represented through EU institutions (the ECB for monetary policy, and the EU Council, in euro area composition, together with the ECB for ex-change rate policy). In contrast, the representation of economic policies is not unified, reflecting the fact that competencies have remained largely in the hands of national governments, which also represent them externally (e.g. in the

IMF).

That said, as one of the key lessons from the ongoing financial and economic crisis, we are currently witnessing enhanced efforts to move towards deeper economic integration in the euro area, which is also the aim of the recently adopted economic governance package and of further proposals which are cur-rently being developed. In my view, this increased 'European dimension' in economic policy decisions will over time also need to be reflected in their exter-nal representation, for instance by drawing on Art. 138 TFEU, which stipulates that the Council – after consulting the ECB – shall adopt common positions and appropriate measures to ensure unified representation within international finan-cial institutions and conferences. Of course, this is a political decisions and not a matter for central banks to decide.

30. How do you assess the recent evolution of the USD/EUR exchange rate?

The authorities responsible for all major floating currencies share the interest in a strong and stable international financial system, characterised by exchange rates that reflect economic fundamentals. This is stated in various G7 commu-niqués. Excess volatility and disorderly movements in exchange rates have ad-verse implications for economic and financial stability. The USD/EUR exchange rate has been subject to considerable volatility since the beginning of the year. This was largely the reflection of the high uncertainty regarding macroeconomic developments and policies, and in particular on the resolution of fiscal situations on both sides of the Atlantic. In fact, the excep-tionally high level of volatility characterised exchange rate markets in general, not just the euro-dollar exchange rate.

31. 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?

Since the exit of its de facto peg to the US dollar in June 2010, the renminbi has appreciated by almost 6% against the US dollar by end of July 2011, but it has depreciated by 9% against the euro and by 5% in nominal effective terms. Since the outbreak of the recent financial turmoil the US dollar appreciated signifi-cantly against the euro and as a side-effect the renminbi re-strengthened against the euro and in nominal effective terms reaching the level of June 2010. Overall, 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. Concerning emerging market economies that have current account surpluses and insufficiently flexible exchange rates, the international community agrees – as repeatedly stated on G20 Summits – that moving towards more market-determined exchange rate systems and enhancing exchange rate stability to re-flect underlying economic fundamentals is in the interests of the economies con-cerned and of the international community. At the Toronto and Seoul Summits, emerging surplus economies agreed to undertake reforms to enhance exchange rate flexibility and thus further efforts from the Chinese policymakers in this di-rection would be welcome.

As regards excessive volatility, along with the authorities responsible for the other major floating currencies, we have a shared interest in a strong and stable international financial system, and support market-determined exchange rates. Excess volatility and disorderly movements in exchange rates have adverse im-plications for economic and financial stability. This implies to consult closely in regard to actions in exchange markets and to cooperate as appropriate.

The academic literature indicates that cooperation in exceptional circumstances through e.g. foreign exchange interventions can be effective, notably if such in-terventions are concerted, consistent with fundamentals and official communica-tion, and undertaken when exchange rate misalignments are large. The con-certed interventions by the G7 economies (such as those of 2000 on the euro or of 2011 on the yen) are broadly deemed as having been successful in this re-spect.

On the international role of the euro, I take note of with the neutral stance adopted by the ECB in 1999, neither trying to hinder nor trying to foster its in-ternational use. The international use of currencies should be the outcome of a market-driven process. However, since the international monetary system is in transition towards a multipolar currency system, this policy could be reviewed.

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

The G20, as the premier forum for global economic governance, has played a crucial role in providing high-level political impetus for crisis containment, cri-sis management and future crisis prevention. G20 cohesion must be ensured also once the crisis is over. It is hence I 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 eco-nomic growth. Having myself attended many meetings of G20 finance ministers and central bank governors as well as G20 leaders' 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 fol-lowing:

First, under the French Presidency this year, a lot of work has been done to strengthen the functioning of the International Monetary System. Together with my Mexican colleague I co-chaired a G20 working group on the subject. We achieved progress nter alia on strengthening surveillance, on devising coherent conclusions on capital flow management as well as on the monitoring and as-sessment of global liquidity. I regard it as important achievements that G20 countries have agreed that both areas should become – together with exchange rate matters and drivers of reserve accumulation – a regular part of surveillance, given the potential externalities that countries' policies in these areas can have on others. As far as the issue of global liquidity is concerned, I would emphasize that it is indeed important to start a regular process of monitoring and assess-ment and that central banks are best placed to monitor global liquidity develop-ments in the context of the central bank cooperative structures of the BIS in Ba-sle. With regard to liquidity provision following major shocks, discussions were started in the G20 and will continue in the IMF on whether and how to further strengthen the IMF's lending toolkit.

Second, G20 Leaders endorsed the key building blocks for the global regulatory reform, including the work done by the Basel Committee and the FSB. It is now crucial for G20 members to make further progress on implementing the agree-ments reached and to lead by example in living up to the commitments made. Key issues include: (i) fully implement Basel II and III along the agreed time-lines; (ii) implement the BCBS framework for Systemically Important Banks and extend the framework to encompass all SIFIs; (iii) agree on recommenda-tions to strengthen oversight, supervision and regulation of shadow banking sys-tem; (iv) full and consistent implementation of OTC derivative recommenda-tions. Other important areas include reducing the over-reliance on credit rating agencies while strengthening their regulation and supervision as well as strengthening the governance and resources of the FSB.

Third, 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 con-tributed 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.

<u>C. Financial stability and supervision</u>

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

The establishment of the three European Supervisory Authorities (ESAs) is a major step forward. It allows building on the experience and the work conducted by the Level 3 "Lamfalussy" Committees, which played an important role to foster supervisory convergence in Europe and to forge mutual trust among the national supervisors. The establishment of the ESAs seeks to remedy one of the major weaknesses of these Committees, namely the non-binding nature of their guidelines. The possibility to issue legally binding technical standards on the ba-sis of regulations / directives adopted by the Parliament and the Council in co-decision will allow creating an EU financial services rulebook, which will pro-mote a level playing field and contribute to the adequate protection of deposi-tors, investors and consumers in Europe.

As regards the ECB's possible role in banking supervision, the following con-siderations can be made. First, in general, the experience of the financial crisis has strengthened the arguments in favour of the involvement of central banks in prudential supervision. In an increasingly market-based and interconnected fi-nancial system, disturbances are likely to affect core market mechanisms, such as the distribution of liquidity, have cross-border implications in a more unpre-dictable manner. An adequate appreciation of such dynamics requires a cross-border systemic perspective as well as appropriate resources and expertise for financial stability analysis as it is the case with central banks. Moreover, during the financial crisis the synergies between the central banking and the supervisor functions have been evident with particular regard to the gathering and assess-ment of information.

Second, taking stock of experience during the crisis, in a number of Member States the role of central banks in prudential supervision has been greatly strengthened. Such developments may over time facilitate further considering the institutional role of the ECB and the possibility given by the Treaty to confer specific tasks in the field of prudential supervision upon the ECB, also in the light of possible further enlargement of the euro-area.

The Eurosystem institutional framework relies on a decentralised operational approach which allows exploiting fully the national authorities' expertise and existing infrastructures. This setting has proved effective in managing the insti-tutional tasks assigned by the Treaty also in the context of the financial crisis. It could provide an appropriate framework for the exercise of supervisory respon-sibilities.

This microprudential supervision is complemented by the role of the ECB in the newly established ESRB on macroprudential supervision.

D. Functioning of the ECB and democratic accountability and transparency

34. In your view, should the different responsibilities of Board members change with time, in line with the changes happening in the ECB's tasks and priorities?

Article 12 of the Statute of the ESCB and the ECB ("the Statute") lays down the responsibilities of the ECB's Executive Board. The article allocates to the Ex-ecutive Board the implementation of monetary policy in accordance with the de-cisions taken by the Governing Council and of the preparation of the meetings of the Governing Council. In addition, according to Article 11 of the Statute the Executive Board is responsible for the current business of the ECB, without however, giving an exact definition of 'current business'.

Both articles refer to the Executive Board as a whole and do not allocate specific tasks to individual Executive Board members, given that the Executive Board is a collegiate decision-making body. This means that decisions are taken by the entire Executive Board and not by individual Executive Board members. Fur-thermore, issues are often interlinked and decisions need to take into account all aspects of an item, i.e. legal, operational and strategic considerations. As a re-sult, all Executive Board members take an interest and are involved in all areas of the Executive Board's competence, be it monetary policy, payment systems, banknotes, etc.

At the same time, to facilitate the efficient administrative handling of dossiers, it seems from the outside that the Executive Board members have agreed among themselves to assign to individual ECB business areas direct reporting lines to one Executive Board member, which, however, does not derogate from the col-lective responsibility of the entire Executive Board.

This approach offers the additional advantage to allow making the best possible use of individual Executive Board members' background. The allocation of re-porting lines is reviewed from time to time, in particular, when there are changes in the composition of the Executive Board. In addition, re-shuffling portfolio re-sponsibilities between Executive Board members also contributes to the strengthening of collegiality.

35. 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 exclusively contains the criterion of professional experience and ex-pertise when selecting Executive Board members. It states 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'. The only consideration related to nationality - and that is almost self-evident – is the re-quirement for a prospective Executive Board member to hold euro area national-ity. The legal texts consciously refrain from laying down any other pre-requisites related to nationality or gender as this would hardly be in line with a selection based on qualification. Nevertheless these legal considerations, I per-sonally consider diversity of institutions to be important; this relates to nationali-ties, gender, age, professional backgrounds and personal experiences.
Furthermore, given that the ECB is a supranational institution, its decisions must be taken exclusively with a euro area perspective, and this clearly excludes tak-ing into account particular national interests. It is a cornerstone of the Eurosys-tem construction that the members of the ECB decision-making bodies partici-pate in the decision-making in their personal capacity and do not represent the Member States from which they come.
The fact that the appointment procedure gives a prominent role to the European Parliament ensures an objective process in compliance with the stipulated crite-ria.

36. What is your view on the need to recruit "the best team" (ie the best functioning collective) of Executive Board members as opposed to simply more narrowly speaking "the best individual"?

The legal framework is very clear in stating what qualifications are required for an Executive

Board member and it would be rather dangerous to invent addi-tional 'soft' criteria which are hard to measure and difficult to implement. Obvi-ously, given that the Executive Board is a collegiate body with collegiate re-sponsibilities for all decisions it takes, it is a prerequisite that it functions well as a team. One should reasonably expect that persons put forward as candidates for the Executive Board would in addition to their recognised standing and profes-sional experience in monetary or banking matters also possess those additional skills. In that sense there is per se no trade-off between a strong professional in-dividual background/experience and being part of an excellent functioning col-lective. My professional experience – and that was also the demonstrated in courses at the business school in Milan – is, that on average teams are better to achieve lasting solutions and to be creative than individuals (this might be dif-ferent for brilliant individuals, but these are rare species).

37. 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?

Again, the Treaty and the Statute remain silent in this respect. Of course, being a person 'of recognised standing and professional experience in monetary or banking matters' does not mean that one necessarily has to be a central banker. Nevertheless, it is not surprising that a rich central bank experience is often relevant and has to be taken into account. However, I myself am a case in point, proving that a different background, in my case the Ministry of Finance, can also provide the experience necessary to qualify as a member of the ECB's Ex-ecutive Board. My own professional experience and the insights I have gained would certainly serve me well in the ECB context.
This shows clearly that other professional backgrounds and experiences can be extremely valuable. The curricula and the professional experience of the current and past members of the Executive Board prove that a wide variety of expertise and experience certainly adds valuable input to the decision-making process.

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

I believe that a sound social dialogue is one of the key success factors for a well-functioning organisation. This I have experienced in my current job at the Ger-man treasury. I am fully committed to participating in the dialogue with the staff of the ECB as well as with their representatives and I expect fruitful and effec-tive exchanges of view with them, for instance on working conditions and other social matters.

In particular, I support an approach in which information is shared with staff representatives and a consultation on relevant matters is initiated at an early stage. Such an approach requires openness and a sense of responsibility on both sides, in order to achieve the ultimate objective of an excellently performing ECB serving the interest of the citizens of the countries that have adopted the euro and as well the European Union as a whole. I will definitely engage in this cooperation with an open mind, in a spirit of trust, partnership and respect.
At the ESCB level, where the ECB maintains a dialogue with the staff represen-tatives of the national central banks and the federations of trade unions to whom they are affiliated, I am convinced that, for instance, the meetings that take place twice a year in Frankfurt between the ECB, the staff representatives and the fed-erations of trade unions allow enriching and useful discussions on ESCB/Eurosystem projects. These exchanges also offer opportunities to foster intra-system cooperation and team spirit, which I wholeheartedly encourage.

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

The Treaty lays down a clear appointment procedure for members of the ECB Executive Board. They shall be appointed “from among persons of recognised standing and professional experience in monetary and banking matters”. The Treaty foresees a consultative role for the European Parliament. In practice, the Committee on Economic and Monetary Affairs (ECON) organises a public hear-ing with the candidate(s) proposed by the Council.
Past experience has demonstrated that this arrangement was appropriate. Since the set-up of the ECB, it has ensured a smooth and credible appointment proce-dure and the selection of persons of high competence, independence and integ-rity. Against this background, no change to the current procedure is in my view warranted. If, at some stage, this procedure were to be reconsidered, it is natu-rally up to the parties involved in Treaty amendments to take a position.

40. What is your view on the problem of "revolving doors" between supervisory or regulartory bodies and private institutions of the same field? Do you think there should be "abstinence periods" between professional activities in public and private institutions?

As regards the members of the Governing Council and the Executive Board of the ECB, the existence of a conflict of interests has been recognised and ad-dressed. As far as the members of the Governing Council are concerned, the ethical rules of the Governing Council foresee a cooling off period of one year after the cessation of duties for any new private or professional activities for which a conflict of interest could arise. Additional rules may be fixed in the term and conditions of employment with their national central bank for the NCB Governors. As far as the members of the Executive Board are concerned, their terms and conditions of employment establish a commitment not to accept any staff, managerial, advisory or consulting position, remunerated or not, with any company or entity having been a counterpart to the ESCB in monetary policy or foreign exchange operations, or with any company or entity pertaining to its consolidated group, within one year following their ceasing to hold office sub-ject to any decision of the Governing Council. To conclude: I consider this 12 months abstinence period to be appropriate.

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

I consider independence and accountability as being 'two sides of the same coin'. Central bank independence is an indispensable element of the monetary policy regimes of our modern economies in general, and of the "monetary con-stitution" of EMU in particular. At the same time, in order to retain legitimacy, an independent central bank must be accountable to democratic institutions and the general public for its actions in the pursuit of its mandate. In other words, it must properly explain and justify its decisions towards citizens and their repre-sentatives.

The concept of democratic accountability is at the heart of the ECB's relations with the European Parliament, as the institution directly representing the Euro-pean people. The ECB goes well beyond its statutory obligations when discharg-ing its accountability obligations. For instance, the ECB President appears be-fore the ECON Committee on a quarterly basis; the ECB's Annual Report is presented to the European Parliament; Executive Board members take part in ad hoc hearings on specific topics.

Accountability and transparency are also fostered inter alia by the ECB's monthly press conferences with the Introductory Statement by the ECB Presi-dent, the ECB's Monthly Bulletin, speeches and interviews by Executive Board members. All in all, I believe the ECB has demonstrated over the first 13 years its high commitment to democratic accountability. I intend to keep up this track record if and when joining the institution.

42. 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?

Transparency requires the central bank to clearly explain how it interprets its mandate and how it applies its monetary policy strategy to assess the state of the economy and to take monetary policy decisions. This not only helps the public to monitor and evaluate the central bank's performance, but also contributes to reduce uncertainty about the future policy action and, thereby, to a reduction in inflation volatility. Overall, transparency and clarity in communication has con-tributed to a better understanding of monetary policy aiming at price stability, making monetary policy more credible and effective.

In an international comparison, the ECB is among the leading contenders in the world with respect to central bank transparency. The ECB has announced a for-mal monetary policy strategy and explains monetary policy decisions applying that strategy. Within its strategy, the ECB has clearly specified in quantitative terms what price stability means. The clear and unambiguous objective of main-taining price stability provides a strong focus for all of the ECB's decisions and created a focal point for coordinating private sector expectations. While the Fed – also given its dual mandate – has not been as explicit in the past, recent com-munications suggest that the Fed defines price stability in a similar manner as the ECB.

A central bank may have several options to explain its decisions, to signal its policy intentions and to reveal diversity within the monetary policy process. From the academic literature and practical experience, it is not always clear what transparency mode is best in given circumstances. In this respect, the pub-lication of minutes could provide additional information on the diversity of the committee and the reasoning underlying the decision. For the Bank of England's MPC which applies individual accountability it makes perfectly sense to publish minutes of policy meetings. The ECB has a different accountability regime, i.e. members of the Governing Council are collectively accountable for their deci-sions. Moreover, its statute requires the ECB to keep the deliberations of the Governing Council confidential, this excludes the possibility to publish the min-utes of the meetings. This allows the Governing Council to make monetary pol-icy decisions in full independence and with a view to emphasising the collective accountability of the committee. The ECB provides 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 assess-ment of economic developments. Moreover, the monthly press conference in-cludes a question and answer session provides a platform for a timely and even-handed explanation of monetary policy decisions and internal diversity to the public.

43. 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 quarterly hearings of the ECB President before the ECON Committee are an essential component of the ECB's democratic accountability. They provide a very important occasion not only for the ECB to explain and justify its policies and thereby contribute to enhance the understanding of the ECB's decisions throughout Europe, but also for the representatives of the people of Europe to pose questions to, and request explanations, from the ECB. They have allowed for a thorough and fruitful dialogue between the two institutions, not only on economic and monetary issues but also on important legislative dossiers (e.g. re-form of the EU supervisory framework, economic governance package).

The ECB has close relations with other EU policy-makers such as, for example, the Eurogroup, the ECOFIN Council and, at a lower level, the Economic and Financial Committee, the Euro Working Group and the Economic Policy Com-mittee of the EU. Finally, the ECB has a specific and clearly defined role in the operation of the financial assistance and crisis management frameworks that have recently been established.

All these contacts take place in full respect of the ECB's mandate and independ-ence. However, I do not think that discussing monetary policy and its decisions with these actors harm the independence of the ECB.

E. General

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

The ECB faces many challenges in these extraordinary times. Let me restrict myself here to three of them that are interlinked:

Let me start with the main objective of the ECB, maintaining price stability in the euro area over the medium term. This is far from easy in the current context given very high uncertainty

and impaired transmission channels of monetary policy. ECB policy rates should be set to maintain price stability for the euro area as a whole in the medium term. Non-standard monetary policy measures need to support the functioning of the transmission mechanism of monetary pol-icy such that ECB interest rates affect the economy and, ultimately, prices in more or less the usual way. Given high uncertainty on macroeconomic devel-opments, abroad and in the euro area, and changing financial conditions related to the sovereign debt crisis, this is a very demanding task, requiring continuous alertness and bold policy action if needed. At the same time, in line with the medium-term orientation of its monetary policy, the ECB has to look ahead and be prepared to withdraw extraordinary measures once financial market condi-tions normalize.
Contributing to the safeguarding of financial stability presents another key chal-lenge that the ECB must face. The financial crisis, through its many stages, has brought these challenges to the fore. Effectively supporting the operation of the ESRB is and will continue to be a challenging task, requiring the ongoing identi-fication and assessment of sources of macro-prudential risk, while existing tools can also be used for this purpose. It will be important to ensure that confusion does not emerge concerning the very distinct mandates of the ESRB and the ECB's Governing Council: in particular, it needs to be emphasized that there is no trade-off between the objective of price stability and the role that the ECB can play in fostering financial stability. In that regard, the financial crisis has raised a number of questions concerning the relation between monetary policy and financial stability. A better understanding of the role of the financial sector in the transmission mechanism is of the essence in this respect.
Finally, and related to the above, the overall development of Europe, and of the euro area in particular, presents a major challenge. The sovereign debt crisis has revealed weaknesses in Europe's economic governance that need to be repaired urgently. There are huge benefits in being part of economic and monetary union, but these do not come for free. Membership in Economic and Monetary Union requires a strong political will from the euro area governments to live up to commitments and respect common rules. Governments of the Member States di-rectly affected by the sovereign debt crisis first of all need to get their house in order. Furthermore, the institutional foundations of EMU need to be strength-ened, both at the national level and at the European level, to reflect better the high degree of integration of the euro area economies. Monetary Union has to be complemented by more

integration towards a fiscal and political union, which requires changes in the EU Treaty. This should help avoiding a renewed build-up of imbalances. The way these challenges will be met matters to the ECB as it affects the environment in which the ECB operates. Also personally, as a dedi-cated European who sees the large contributions that the European Union and the euro bring to the welfare of its citizens, this issue is very close to my heart.

RESULT OF FINAL VOTE IN COMMITTEE

Date adopted	10.10.2011
Result of final vote	+: 20 –: 2 0: 1
Members present for the final vote	Sharon Bowles, Udo Bullmann, Pascal Canfin, Nikolaos Chountis, George Sabin Cutaş, Leonardo Domenici, Jean-Paul Gauzès, Sven Giegold, Sylvie Goulard, Gunnar Hökmark, Jürgen Klute, Werner Langen, Íñigo Méndez de Vigo, Antolín Sánchez Presedo, Olle Schmidt, Peter Skinner, Ivo Strejček, Ramon Tremosa i Balcells, Corien Wortmann-Kool
Substitute(s) present for the final vote	Elena Băsescu, Iliana Ivanova, Danuta Jazłowiecka, Olle Ludvigsson