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# RAPPORT

dwar ir-rakkomandazzjoni tal-Kunsill għall-ħatra ta' Membru tal-Bord  
Eżekuttiv tal-Bank Ċentrali Ewropew  
(17227/2011 – C7-0459/2011 – 2011/0819(NLE))

Komitat għall-Affarijiet Ekonomiċi u Monetarji

Rapporteur: Sharon Bowles

**WERREJ**

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## PROPOSTA GĦAL DEĊIŻJONI TAL-PARLAMENT EWROPEW

### **dwar ir-rakkomandazzjoni tal-Kunsill għall-ħatra ta' Membru tal-Bord Eżekuttiv tal-Bank Ċentrali Ewropew (17227/2011 – C7-0459/2011 – 2011/0819(NLE))**

#### **(Konsultazzjoni)**

*Il-Parlament Ewropew,*

- wara li kkunsidra r-rakkomandazzjoni tal-Kunsill tal-1 ta' Diċembru 2011 (17227/2011)<sup>1</sup>,
  - wara li kkunsidra t-tieni subparagrafu tal-Artikolu 283(2) tat-Trattat dwar il-Funzjonament tal-Unjoni Ewropea, skont liema artikolu gie kkonsultat mill-Kunsill (C7-0459/2011),
  - wara li kkunsidra l-Artikolu 109 tar-Regoli ta' Proċedura tiegħu,
  - wara li kkunsidra r-rapport tal-Kumitat għall-Affarijiet Ekonomiċi u Monetarji (A7-0443/2011),
- A. billi, permezz ta' ittra bid-data tal-1 ta' Diċembru 2011, il-Kunsill Ewropew ikkonsulta lill-Parlament Ewropew dwar il-ħatra ta' Benoît Coeuré bħala Membru tal-Bord Eżekuttiv tal-Bank Ċentrali Ewropew għal mandat ta' kariga ta' tmien snin;
- B. billi l-Kumitat għall-Affarijiet Ekonomiċi u Monetarji tal-Parlament imbagħad evalwa l-kredenzjali tal-persuna nnominata, b'mod partikolari fid-dawl tar-rekwiziti stipulati fl-Artikolu 283(2) tat-Trattat dwar il-Funzjonament tal-Unjoni Ewropea (TFUE) u fid-dawl tal-ħtieġa ta' indipendenza sħiħa tal-Bank Ċentrali Ewropew skont l-Artikolu 130 tat-TFUE, u billi fit-twettiq ta' din l-evalwazzjoni, il-kumitat irċieva *curriculum vitae* mingħand il-kandidat, kif ukoll it-tweġibiet tiegħu għall-kwestjonarju bil-miktub li kien intbagħatlu;
- C. billi l-kumitat imbagħad kellu smiġħ ta' siegħa u nofs mal-persuna nnominata fit-12 ta' Diċembru 2011, li fiha għamel dikjarazzjoni tal-ftuħ u mbagħad wieġeb il-mistoqsijiet li sarulu mill-membri tal-kumitat;
1. Jagħti opinjoni favorevoli dwar ir-rakkomandazzjoni tal-Kunsill għall-ħatra ta' Benoît Coeuré bħala Membru tal-Bord Eżekuttiv tal-Bank Ċentrali Ewropew;
  2. Jagħti istruzzjonijiet lill-President tiegħu biex jgħaddi din id-deċiżjoni lill-Kunsill Ewropew, lill-Kunsill kif ukoll lill-gvernijiet tal-Istati Membri.

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<sup>1</sup> Għad mhijiex ippubblikata f'Il-Ġurnal Uffiċjali.

## **ANNEX 1: CURRICULUM VITAE TA' BENOÎT COEURÉ**

Imwield fis-17 ta' Marzu 1969 fi Grenoble, Franza Ċittadinanza: Franciża

### **Edukazzjoni**

1985 Baccalauréat, Lycée Stendhal, Grenoble

1990 Ecole Polytechnique

1992 Ecole Nationale de la Statistique et de l'Administration Économique

M.A. fl-Analiżi u l-Politika Ekonomika, EHESS, Pariġi

B.A. fil-Ġappuniż, l-Università Paris 7

### **Karriera professjonali**

1992-1995 Ekonomu, Divizjoni tal-Politika Makroekonomika u t-Tkabbir, INSEE

1995-1997 Ekonomu, Unità għall-Politika tal-Kambju u l-Bilanċ tal-Pagamenti, it-Teżor ta' Franza

1997-2002 Konsulent ekonomiku tad-Direttur tat-Treżor

1999-2001 Kap tal-Unità għall-Politika tal-Kambju u l-Politika Ekonomika, it-Teżor ta' Franza

2002-2006 Deputat Kap Eżekuttiv, Agence France Trésor

2006-2007 Kap Eżekuttiv, Agence France Trésor

2007-2009 Kap tad-Dipartiment tal-Affarijiet Multilaterali u l-Iżvilupp, it-Teżor ta' Franza

2009-2011 Deputat Direttur Ġenerali tat-Teżor ta' Franza

### **Karigi uffiċjali ohra**

Kopresident tal-Paris Club (2007-2009)

Deputat tal-G7-G8 u Viċi Sherpa tal-Finanzi għal Franza (2007-2009)

Kopresident tal-Grupp ta' Hidma tal-G-20 dwar ir-Riforma tal-Bank Dinji u Banek Multilaterali Ohra tal-Iżvilupp (2009) u tas-Sottogrupp ta' Hidma tal-G-20 dwar il-Ġestjoni tal-Likwidità Dinjija

Membru tal-Grupp ta' Hidma Nru 3 tal-OECD (2009-2011)

Membru tas-Sottokomitati tal-UE dwar il-Kambjali u l-Bonds u tal-Komitati ta' Tmexxija tal-Grupp ta' Hidma tal-OECD dwar il-Ġestjoni tad-Dejn (2002-2007)

Membru tal-Bord tal-CADES (2002-2007) u tal-Bord tal-Aġenzija Franċiża tal-Iżvilupp (2007-2009)

Membru tal-Kunsill Franċiż għall-Analiżi Ekonomika, tal-Kunsill ta' Orjentament dwar il-Pensjonijiet u tal-Kunsill ta' Osservazzjoni tal-Impjiegi (2009-2011)

### **Midalji**

Médaille de la défense nationale (1988)

Médaille d'outre-mer (1988)

Chevalier de l'Ordre National du Mérite (2009)

### **Premji akkademiċi**

Nominat bħala l-aqwa ekonomu żagħżuġh Franċiż (2005)

## ANNEX 2: TWEĠBIET TA' BENOÎT COEURÉ GHALL-KWESTJONARJU

### **A. Personal and professional background**

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

From 1995 to 1997, I have been an economist at the French Treasury, preparing for EU, G7 and OECD meetings. I have then been the economic adviser to the Director of the French Treasury, in particular during the Asian crisis. From 2002 to 2007, I have been the deputy head, then the head of the debt management office, Agence France Trésor. In this capacity, I have been in charge of France's cash management policy and operations, including cash pooling for all local jurisdictions. I have also been in charge of the issuance strategy and auctions of French debt, and of relations with the relevant stakeholders such as end-investors including central banks, primary dealers, other sovereign issuers, and market infrastructures.

From 2007 to 2009, I have been responsible for multilateral affairs at the French Treasury, and as such in charge of international financial negotiations, development finance, and international trade policy.

Since 2009, I have been deputy director-general and chief economist of the French Treasury, responsible for economic policy advice both in the macroeconomic and structural fields, and for public finance coordination. In this capacity, I have also been in charge of trade promotion and export credit, and I have been involved in Financial Stability Board discussions.

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

European experience: as a junior economist, I have participated in preparatory work for phase III of the Economic and Monetary Union, including initial drafting of the Stability and Growth Pact and the Exchange Rate Mechanism. As head of the foreign exchange and economic policy division of the French Treasury from 1999 to 2001, I have been in charge of preparing Eurogroup meetings and EU discussions on macro and budgetary surveillance. As deputy head, then head of the French debt management office from 2002

to 2007, I was a member of the EFC sub-committee on bonds and bills.

International experience: from 2007 to 2009, I have been G7/G8 Finance Sous-Sherpa for France, alternate Governor for France of the African Development Bank and Governor of IFAD, and a member of the board of the French Development Agency and of the Central Bank of Central African States (BEAC). I have accompanied the French Finance Minister in IMF/World Bank and other multilateral meetings and sometimes represented her as head of delegation. I have co-chaired two working groups of the G-20: on reforming the World Bank and other multilateral financial institutions in 2009 and on global liquidity management in 2011. I have been the Co-Chair of the Paris Club from 2007 to 2009 and in this capacity, I have presided over several debt treatment negotiations such as Congo, Djibouti, Guinée, Liberia, and Seychelles, and led debt discussions with the Argentine government. I have also been a member of OECD Working Party No. 3.

**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 EHESS and ENSAE in Paris. I have taught economic policy and international economics at Ecole polytechnique from 2001 to 2011, and at Sciences Po since 2011. I have published articles mainly on exchange rate policies, the international monetary system and on European policies, including in academic journals. I have published two textbooks with co-authors: *Economie de l'euro* (La Découverte, 2002 and 2010) and *Politique économique* (De Boeck, 2004 and 2009, US version released as *Economic Policy: Theory and Practice* by Oxford University Press, 2010) and a CEPR report on pension fund reform written together with a Dutch and British colleagues. I have also edited collective policy contributions, including most recently *Sauver l'Etat* (Presses Universitaires de France, 2011) on French public finance consolidation.

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

The most momentous decisions to which I have been party may have been the final discussions before the introduction of the euro, the decisions and reforms around and after the Asian crisis, the G20 Leaders Summits in Washington and London, and the management of the euro area crisis since 2010. That said, as head of the French debt

management office, I had to take decisions which did not make history but nevertheless had an impact on either French public finances or the European sovereign bond market, such as developing the market for inflation-protected debt or issuing the first 50-year sovereign bond.

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. ***You have been chosen, among other French candidates, including a central banker, by President Sarkozy, who has very strong views on the role of the ECB. Will that affect your independence and your actions at the ECB?***

As a candidate to an Executive Board position, I intend to be loyal to the ECB and to abide by its statute. Members of the ECB decision-making bodies cannot accept or seek instructions from any government of a Member State, and governments have undertaken to respect this principle and not to seek to influence them. Executive Board members should therefore act in the interest of the EU within the mandate of the ECB as defined by the Treaties.

Besides, moving from a Treasury to a central bank is not unprecedented and I have interacted closely in my professional career with the Eurosystem and the central banking community – most recently, as co-chair of the G-20 working group on global liquidity management, a group made of Treasury and central bank officials, with my co-chair being a representative of the Central Bank of Mexico.

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

If confirmed, my guiding objectives would be to contribute to the achievement of the ECB mandate, with a primary objective to maintain price stability, and to protect the independence of the ECB, in the interest of euro area citizens. In pursuing these objectives, I would seek as much as possible to encourage collective thinking and base decisions on first principles.

## **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 clear mandate to maintain price stability over the medium term for the euro area as a whole. The ECB has been successful, with average inflation around 2% since 1999. More importantly, inflation expectations in surveys and in financial markets have been below, but close to, 2% over the medium term, despite many exceptional challenges ranging from large increases in commodity prices to downward inflation pressure stemming from the very severe and global economic recession. Today, I see no reason for changing this successful framework.

**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 trend decline in both the level and the variability of goods and service price inflation over the past 30 years - until before the eruption of the financial crisis in 2007 - is due, among other factors including globalisation, to the significant improvement in policymaking and the unchallenged focus by central banks on the need to preserve price stability. The events of the past four years are a clear testimony of the importance for central banks to monitor asset price developments in order to preserve macroeconomic stability. In their quest for price stability central banks should not target prices of financial or real assets, but rather incorporate the information on eventually unsustainable developments in such prices into their own decisional process so as to neutralise the possible effects of financial crisis on output and price stability.

The ECB's monetary policy strategy is well equipped in that regard. The information embedded in money, credit and asset prices helps the Governing Council to form a view on the likely developments in economic activity originating in the links between asset prices on one side and, respectively, private wealth, the cost of capital and the balance sheet positions of various euro area sectors, on the other side.

Moreover, the flexible, medium-term orientation of the monetary policy strategy allows taking into consideration also scenarios of financial instability, including the prevention of asset price bubbles, insofar as they impact on the outlook for price stability in the euro

area, as credit and financial imbalances are normally characterised by a rather longer build-up time period as compared to the other more common economic shocks.

**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)?***

Purely temporary effects of commodity price increases do not require a monetary policy response as monetary policy has a medium-term orientation. However, monetary policy may have to react in case of sustained upward trends in commodity prices or if the initial temporary effect starts being translated into second-round effects on consumer price inflation. This could for instance take place if (temporary) higher inflation feeds through in higher wages or higher inflation expectations. Changes in ECB official interest rates may then be required to return to a situation of price stability and well-anchored inflation expectations over the medium term.

In case of a short-term conflict between fighting a recession and maintaining price stability, the Treaty is very clear about the ECB's mandate. In the longer term, there is no such trade off. Maintaining price stability over the medium term is the best contribution to fostering sustainable economic growth.

**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?***

With a large number of economies that have different macroeconomic characteristics, it is inevitable that there is some heterogeneity among euro area countries. A low and inappropriate level of real interest rates in some countries in the years prior to the crisis has led to a high degree of heterogeneity in growth rates and in inflation rates. Currently, a fairly high degree of heterogeneity in inflation and economic growth is observed as a result of some countries having to correct developments that proved to be unsustainable, as evidenced by asset price booms, current account deficits, and a highly leveraged banking and private sector. Unsustainable positions need correction at the national level through relative-price adjustment and sound structural and fiscal policies.

The ECB's monetary policy only has one interest rate instrument available and this instrument can therefore only target developments in the euro area as a whole. However, country-specific developments affect the single monetary policy to the extent that they

affect developments at the level of the euro area, either directly or indirectly through spill-overs to other countries, and demand for liquidity may differ across countries and thereby introduce differences in liquidity provision.

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

The ECB currently provides to euro area banks the volume of liquidity that they demand, at fixed rates in all its refinancing operations, against eligible collateral. Demand for liquidity is very high at the moment as a result of lack of confidence in financial markets, notably the money market and bond markets, and non-euro denominated funding markets, limiting the possibilities for banks to fund themselves there.

The intermediation role of the ECB has grown over time with an increasing number of countries and markets being affected by the sovereign debt crisis, but part of the borrowed liquidity is being deposited at the ECB, signalling that liquidity demand is of a precautionary nature. A return of confidence in markets by decisive national action would facilitate banks' access to funding via financial markets, reducing the role of the ECB in providing liquidity to more usual proportions.

**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?***

Article 127 of the Treaty assigns the Eurosystem the primary objective of maintaining price stability. Price stability is the most important contribution that monetary policy can make to achieve a favourable economic environment and a high level of employment. In order to clarify the meaning of price stability in numerical terms, the ECB's Governing Council announced a quantitative definition of price stability, and thereby provided the public with a benchmark for accountability. In line with it, the monetary policy of the ECB aims to maintain inflation below, but close to, 2% over the medium term.

Without endangering price stability, the ECB has been giving a sufficient degree of support to the economy by using its interest rate instrument – most lately through the decision of 8 December 2011. During the financial crisis, the ECB gave ongoing support to the economy by making its monetary policy stance very accommodative without negatively affecting price stability over the medium term.

**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?***

[Note: the answer to this question does not take into account the outcome of the European Council of 9 December 2011.]

The sovereign debt crisis has shown that macroeconomic and fiscal imbalances can seriously endanger the smooth functioning of EMU. The prevention and correction of such imbalances has been weak or lacking in the past. The strengthening of the Stability and Growth Pact and creation of a new macroeconomic surveillance procedure in the so-called "Six-Pack" have been decisive steps towards a good functioning of the monetary union, on which any further progress should be built.

The "Six-Pack" should now be implemented swiftly. With its new prerogatives, it is important that the Commission in full independence uses the new tools at its disposal decisively. Furthermore, the Council must exert adequate peer pressure on the non-compliant countries. In particular, greater automaticity in decision-making through the use of reverse qualified majority voting where this was agreed will be essential. The contribution of the European Parliament in its trilogue with the Commission and the Council over the "Six-Pack" was highly valuable, especially regarding the creation of the economic dialogue through which the European Parliament can and should play a useful role in the surveillance process.

To make this framework even more credible, further steps can be taken, such as agreeing on a European balanced-budget rule to be introduced by Member States in their Constitutions or at equivalent level. Transposition of the European rule at a national level should be verified by the EU Court of Justice. Institutional reforms can also contribute to strengthening euro area governance, such as providing the EFC/EWG with a full-time chairperson.

Looking forward, it is necessary to ensure a degree of fiscal policy coordination that is commensurate with a smooth functioning of monetary union – what has been called the "fiscal stability union". This requires elements of shared fiscal sovereignty within the euro area. It is essential in my view that shared fiscal sovereignty comes along with democratic responsibility through adequate implication of the European Parliament and

of national parliaments.

Member States should also continue structural reforms in an ambitious manner as well as the implementation of policies aimed at continuing fiscal consolidation and, where needed, macroeconomic rebalancing. At a European level, further progress and stronger resolve is needed in the implementation of the Single Market, in particular (but not only) in the field of services, as well as a more integrated approach in the regulation and supervision of the financial sector including a common framework for resolution and deposit guarantee in the euro area, especially as regards the large and complex cross-border banking groups.

All legal options should be explored to achieve these objectives, including a Treaty change.

**15. *What would be your critical assessment of the French budgetary policy in the last years, especially as regards the rules of the stability and growth pact? In your views, is the strict adherence to the stability and growth pact desirable?***

Preserving France's AAA rating has implications for the stability of the euro area as a whole. Since becoming subject to the Excessive Deficit Procedure in 2009, the French authorities have shown resolve to live up to their obligations under the SGP. The fiscal consolidation process which started in 2010, in line with the Council Recommendation, was stepped up in 2011 and allowed reducing the deficit-to-GDP ratio from 7.6% of GDP in 2009, the highest level since the start of EMU, to (almost) 5.7% of GDP in 2011. The 2012 budget further pursues this endeavour (it targets a deficit-to-GDP ratio of 4.5% instead of 4.6% in the EDP) and the two additional consolidation packages of August and November 2011, and their stronger emphasis on expenditure reduction compared to the past, are an example of the French government's determination to fulfil its SGP commitments. In particular, the November package provides for a balanced effort between tax increase and expenditure reduction at the 2016 horizon, including through the acceleration of the 2010 pension reform. Outlining for the first time the full path towards fiscal balance is an important contribution to anchor expectations and mitigate the adverse short-term impact of fiscal consolidation on growth.

The return to sustainable public finances will remain a serious challenge for French governments until 2016 at least. Along this path, further consolidation measures may

prove necessary. The authorities must actively reflect on ways to reduce the level of government spending (which is among the highest in Europe), further improve the efficiency and clarify the priorities of the public sector, and design the consolidation process in a way that minimizes its short-term impact on growth, does not hamper long-term investment and preserves social cohesion. In particular, reform of the French tax system is needed so that it becomes more friendly to growth.

- 16. *In a book written a few years ago, you wrote that the SGP was increasingly challenged for "weak analytical foundations", "no regard for quality of spending" and "disputable zero deficit target". Will you argue for a change in the ECB's position in that regard?***

The implementation of the Stability and Growth Pact (SGP) has proven to be insufficient to prevent the accumulation of major fiscal imbalances in the majority of euro area countries. One reason was that countries failed to use the good times to create budget surpluses, which would have created room for manoeuvre in bad times. In addition, such room for manoeuvre would also allow a better allocation in favour of quality expenditures.

Another reason was that insufficient attention was paid to debt sustainability. In the book mentioned above, I explored ways to address this shortcoming and considered options where the deficit target would be adjusted to the level of government debt and off-balance-sheet liabilities, such as civil servant pensions. This has been addressed in the "Six-Pack" through the introduction of numerical benchmarks for debt reduction.

As a consequence of insufficient attention paid to debt, we are currently facing a severe sovereign debt crisis which is undermining confidence and macroeconomic and financial stability in the euro area as a whole. The agreement on the "Six-Pack" fully draws the consequences of the shortcomings of the initial SGP. It is most welcome as it strengthens both the preventive and the corrective arm of the SGP, emphasizes debt sustainability, and establishes minimum requirements for national budgetary frameworks.

- 17. *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. Generally speaking, the mandate of the ESM is to safeguard

macro-financial stability in the euro area as a whole. The primary mandate of the ECB is to maintain price stability in the euro area over the medium-term. These two mandates are complementary to each other, not least as price stability is a necessary condition for broad macro-financial stability. However, they are distinct insofar as the role of the ECB is not to ensure financing for governments.

The ESM Treaty further specifies the involvement of the ECB in the ESM in assessing whether there is a risk to the financial stability of the euro area as a whole warranting an activation of the ESM; in assessing the actual financing needs of the Member State concerned; in contributing to the negotiation of Memoranda of Understanding (MoU) containing appropriate policy conditionality, and to the subsequent monitoring and implementation of such MoU; and in providing an analysis recognising exceptional financial market circumstances and risks to financial stability warranting activation of secondary market interventions by the ESM.

Any activity of the ECB in relation with the ESM should be decided by the ECB only, under the condition that it is without prejudice to the ECB primary objective of price stability.

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

It is essential that the governments swiftly implement the new instruments of the EFSF in line with the Heads of State and Government decisions of 21 July and 26 October. The EFSF must be given the capacity to fulfil its function for safeguarding financial stability in an effective and efficient manner. Leveraging is one element to maximise the effectiveness of the facility, and to make out the most of available public money. At the Eurogroup meeting of 29 November, Member States have agreed on two leverage options, both of which should be operational at the latest early January.

The mandates of the EFSF and of the ECB are different. The ECB should remain focused on maintaining price stability. The current crisis is a fiscal crisis. Therefore, the answer has to come from fiscal and structural policies and from improvements in the European governance.

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

The introduction of Eurobonds with large or mutual fiscal obligations is critically dependent on correct sequencing. Specifically, it is only feasible as a consequence of a significant transfer of fiscal sovereignty to the EU level with the aim of achieving genuine economic union in the euro area, commensurate with monetary union.

While some observers see Eurobond issuance as a governance tool in itself – for example, by providing greater control over government financing – without effective economic governance such mechanisms would lack credibility, create serious moral hazard and risk weakening incentives for sound fiscal policies which are essential in economic and monetary union. This would thereby complicate the pursuit of price stability by the Eurosystem.

As implementing such fundamental changes to fiscal governance will necessarily take time, Eurobond issuance should be seen as a medium-term objective within a sequence of fiscal governance reform.

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

Like other central banks, the ECB has one main instrument to fight inflation, which is the short-term interest rate. In normal times the combination of one goal (price stability), and one instrument is sufficient. During a financial crisis, the picture may change, because concerns towards “secondary” objectives like financial stability get more prominence. During a financial crisis, a central bank can reduce the key interest rate towards the lower nominal bound, and thereby make a contribution to financial stability. This is what the ECB and other leading central banks have done in response to the shocks.

At the zero lower bound, central banks cannot do much using their conventional instruments. Instead of developing new instruments, which is not a straightforward task, the ECB has resorted to a broad set of non-standard measures with the aim to restore the functioning of the transmission mechanism. It 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. In order to do so, the ECB enhanced its operational framework e.g. through longer term refinancing operations and broader collateral and invented new programmes such as the Enhanced Credit Support, the Covered Bonds Purchase Program, and the Securities Markets Programme.



It also introduced swap operations with other central banks, notably the US Federal Reserve for the provision of dollar liquidity. All these measures are thought to be of temporary nature, and will be conducted as long as they are needed. The ECB is constantly reviewing the overall situation, as evidenced by the decisions taken on 8 December 2011 to support bank lending and money market activities. As it currently looks, the available tools are sufficient.

**21. *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 monetary policy operations, well-comparable standards to assess the quality of the assets are necessary. Ratings from credit rating agencies are one important, but not the only, input used for that. The Eurosystem also takes into account other features guaranteeing a high risk protection. For instance, in the case of a country under an IMF-EU adjustment programme, the ECB's assessment of the programme and country's compliance with it are of crucial importance.

The Eurosystem Credit Assessment Framework includes the standards that the ECB applies for securities, including government bonds of euro area countries. If needed to ensure an adequate risk protection of the Eurosystem, the Eurosystem can reject securities, limit their use or apply additional haircuts to them, on the basis of any information it considers relevant.

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

The proposals currently on the table in this area assume that a European Credit Rating Agency would be funded wholly or partially by public money. The degree of independence of such a European Credit Rating Agency will therefore be questioned. The requirement of validation and the practical issue of building a track record over several years could make the Agency not operative for some time. Finally, it remains to be ascertained whether the creation of a semi-public agency would result in increasing competition, or rather create artificial barriers to entry for new private entities and therefore ultimately reduce competition.

As a result, priority should be given to reducing the reliance on ratings of the financial

regulatory apparatus.

- 23. *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 SMP aims to support the transmission of monetary policy decisions. Dysfunctional securities markets – and dysfunctional government bond markets in particular, given the crucial role of government bond markets – hamper the normal transmission of changes in policy interest rates to the real economy and ultimately to prices. The SMP therefore fulfils a monetary policy purpose, and clearly falls within the mandate of the ECB. One therefore cannot claim that the ECB has become a fiscal player. The ECB assesses the situation and takes decisions where needed in full independence. The ECB can deliver liquidity to certain financial market segments in order to improve their functioning, and thereby limit spill-overs from dysfunctional government securities market segments to countries with fundamentally sound fiscal positions. However, only effective government action to return to sound and sustainable fiscal positions can durably ensure a better functioning of government securities markets.

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

All non-standard monetary policy measures taken by the ECB are temporary in nature. They have been taken to enhance the transmission process of monetary policy, in view of impaired financial markets. Therefore, the pace and timing of the exit from the measures taken is closely linked to financial market developments.

In turn, these developments depend to a large degree on appropriate national fiscal consolidation and structural reform policies. Such action could limit risk premiums in bond yields, thereby also improving the financial positions of banks and corporations. Strengthening the capital of banks experiencing financial problems would help restoring access of these banks to financial markets as needed, which could reduce their reliance on ECB refinancing operations.

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

The ECB has repeatedly made the point that honouring sovereign debt obligations has to

be an essential principle of a well functioning economic system. This requires the adoption of needed fiscal consolidation measures and structural reforms to boost the potential of the economy. A country in distress can also seek financial assistance from the IMF and other European member states via the EFSF under strict conditionality.

Given the exceptional situation in Greece, euro area political leaders have decided for private sector involvement. The ECB has emphasised that, in order to minimise the spillovers to other euro area countries, private sector involvement should be of voluntary nature and that a ‘credit event’ should be avoided. The decisions taken by the Heads of State or Government have been consistent with the ECB’s concerns in this regard.

It is very significant that Heads of State or Government have recognised that the approach followed for Greece was exceptional and unique in response to an exceptional and unique situation. This should be understood and accepted by financial market participants, so that government bond markets can again play their central role in the good functioning and stability of the financial system. This requires as a precondition that individual member countries stick to their commitments to sustainable fiscal consolidation and structural reform. To prevent countries in future from the effects of a negative debt spiral, the full respect of the enforced Stability and Growth Pact is of the essence.

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

I fully share the principles of transparency and openness. As regards the SMP and the CBPP2, the ECB provides, on a weekly basis, information on the amounts purchased (net of the amounts redeemed). However, providing detailed information on the bond purchase programmes, especially on the SMP which is carried out in the form of an intervention operation, could harm the effectiveness and efficiency of these programmes.

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

The settlement of cross-border payment flows between banks in the euro area in the payment system TARGET2 results in intra-Eurosystem balances. Their netting out throughout the Eurosystem results in NCBs displaying a TARGET2 claim or a

TARGET2 liability vis-à-vis the ECB, the central counterparty. TARGET2 liabilities have increased sizeably during the financial crisis for some NCBs: this is because their banking systems face payment outflows which are not matched by payment inflows and cannot be compensated by fund raising in the market. Compensation comes instead from borrowing at the NCB.

Thus, the 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.

This uneven distribution within the Eurosystem provides stability as it allows financially sound banks – even those in countries under financial stress – to cover their liquidity needs, against eligible collateral. Ensuring that solvable banks are not constrained in their short-term funding has been a key feature of the ECB’s non-standard measures. 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. The TARGET2 balances will decline again (and the liquidity provision throughout the Eurosystem will normalise) when access to funding sources of credit institutions will normalise across the euro area, and the current abnormal cross-border capital flows will then revert to a more normal level, more or less reflecting current account surpluses and deficits.

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

Europe needs to raise its potential of sustainable growth to raise the living standards and to help bringing public finances on a sustainable path despite the costs of ageing. In the years prior to the crisis, some countries experienced sustained losses in international competitiveness and/or rising current account deficits over extended periods of time, frequently reflecting high nominal wage growth combined with poor productivity performance and, in some cases, an excessive shift of production towards non-tradable sectors such as construction or the public sector. In a monetary union such as the euro area, with a single currency and a single monetary policy, the main adjustment

mechanism is via price and cost adjustment.

Accordingly, structural reforms targeted at removing rigidities and enhancing wage flexibility are essential. This includes the elimination of automatic wage indexation clauses and a strengthening of firm-level agreements. In addition, changes to unemployment insurance systems and active labour market policies should also aim to help facilitating the reallocation of resources towards more competitive firms and sectors.

These measures should be accompanied by structural reforms enhancing domestic and cross-border competition and supporting innovation. The Single Market has produced enormous benefits for European citizens but as established by the Monti report of 2010, it is at a critical juncture as it faces the challenge of an eroding political and social support for market integration and, in Mario Monti's words, "a sense of complacency that gained strength in the past decade, as if the single market had been really completed and could thus be put to rest as a political priority". Liberalisation of product markets should thus be continued, and competition should be enhanced in particular in services, including the liberalisation of closed professions. Indeed, while the manufacturing industry is in many cases at the competitive margin, there is a well-documented relationship between the degree of competition and productivity gains in the service sectors. Moreover, a lower cost of services will support manufacturing competitiveness as the price of inputs will go down. Further progress towards attaining the objective of a single market needs to be achieved through the full implementation of the services directive, improving access to finance – especially for small and medium enterprises (SMEs).

As for innovation, it can be supported by reforming higher education, supporting research & development, improving the business environment for corporations, and when needed by public investment in frontier technologies, with due respect of the objective of bringing public finances back to balance.

Structural reforms should also be supported by an appropriate reorganisation and consolidation of the banking sector. Sound balance sheets, effective risk management and transparent, robust business models remain key to strengthening banks' resilience to shocks and to ensuring adequate access to finance, thereby laying the foundations for sustainable growth and financial stability.

As for the ECB, it is by ensuring price stability that it will best contribute to a growth-

enhancing environment and to fostering long-term private-sector investment.

**29. *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)?***

The Member States outside the euro area should pursue stability-oriented economic policies and adopt the euro once they fulfil the convergence criteria in a sustainable manner. The precise timing of euro adoption will differ from country to country as it depends on the degree of convergence achieved. The assessment of a country's readiness should be based on the existing convergence framework as laid down in Article 140 (TFEU) and in the Protocol on the convergence criteria. During ERM II participation, which precedes euro adoption, Member States should demonstrate that they can maintain price stability, fiscal discipline and competitiveness at the same time without major changes in the exchange rate.

The current challenges that some euro area countries are facing illustrate very clearly the importance of achieving a high degree of sustainable convergence. Adopting the euro is a fundamental policy decision that should not be taken lightly. It has implications for domestic economic policies and countries that would like to adopt the euro should be very well aware of that. At the same time, the benefits of the euro and euro area enlargement should not be lost out of sight. Euro area enlargement will further extend the benefits of the single market with a single currency to more countries, which can strengthen the euro area.

**30. *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?***

If agreed by all major financial jurisdictions, a financial transaction tax can be useful to lever resources at a low rate and out of a wide taxable base, and/or to hamper the developments of markets that would be proved to be prejudicial to financial stability.

However the consequences of such a tax would have to be carefully weighted. The tax on currency transactions is a case in point. The hoped-for reduction in volatility, for example, has not been confirmed in theoretical or empirical research. Actually, the

resulting lower market liquidity could well further increase volatility. Moreover, such a tax breaks with the principle of taxing outturns, such as profits. Internationally diversified businesses could be particularly strongly affected, as each intermediate transaction involving payments between suppliers and subcontractors would be taxed. In addition, a tax on currency transactions is unlikely to be compatible with EU treaties, and I am aware that the ECB has already raised legal questions about this in an official opinion.

Although this may not apply to all financial transaction taxes, this indicates that the pros and cons should be carefully weighted. In particular, I would not advise unilateral adoption of such taxes without global agreement, including with financial centres outside the EU.

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

The ECB bears exclusive responsibility for representing the single monetary policy. As for the euro exchange rate policy, both the Council and the ECB are involved in the exercise of this competence. In contrast, economic policies are represented by Member States in the relevant international institutions and fora. As economic policy coordination and rules in the euro area are strengthened, they should ultimately be reflected in the external representation of EMU. That said, any such decisions are a political prerogative and fall in the remit of the Council.

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

All authorities responsible for major floating currencies share a common interest in a strong and stable international financial system based on market determined exchange rates. Excess volatility and disorderly movements in exchange rates have adverse implications for economic and financial stability.

In the course of 2011 the bilateral exchange rate of the euro against the US dollar has been characterised by rather wide swings. After an appreciation of the euro towards the US dollar from early January to end-April, and a sideways movement in the four months thereafter, the euro has depreciated against the US dollar since late August amid elevated volatility. Against this background, the euro continued to be a remarkably stable currency, also when compared with other major currencies. Recently, given the strains in

European sovereign bonds market, the euro has remained remarkably steady, in a range of 1.33-1.40 US dollar and has not fallen as in 2010. This highlights the fact that the ongoing euro area crisis is a fiscal and financial crisis but does not endanger the value of the currency, be it internal or external.

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

In spite of the exit from its de facto peg to the US dollar in the middle of last year, the Chinese RMB has lost more than 1% vis-à-vis the euro. As a matter of fact, the appreciation of the RMB against the US dollar (7%) has been offset by the depreciation of the dollar against the euro (9%). Market-oriented exchange rates that reflect underlying economic fundamentals contribute to global economic stability. Against this background, China's commitment in the Cannes Action Plan for Growth and Jobs to increase exchange rate flexibility consistent with underlying market fundamentals, as a way to address short-term vulnerabilities, should be commended.

Excess volatility and disorderly movements in exchange rates have adverse implications for economic and financial stability, which warrants to consult closely in regard to actions in exchange markets and to cooperate as appropriate. Cooperation in foreign exchange markets in exceptional circumstances may be effective if interventions are concerted, consistent with fundamentals, and undertaken when misalignments are large, according to academic studies. For instance, the last two concerted interventions by the G7 (on the euro in 2000 and on the yen after the Fukushima-Daiichi earthquake) are widely seen as having been successful. Uncoordinated interventions, on the contrary, are less likely to be successful.

I believe the EU should try neither to hinder nor foster the international use of the euro. The international use of currencies is essentially the outcome of a market-driven process. That said, the international community has a responsibility to make sure that the internationalisation process of currencies is smooth and does not in itself generate financial instability. This is why the G-20 has encouraged the broadening of the Special Drawing Rights currency basket in 2015 or earlier, as a way to encourage the use of freely-usable currencies and oversee the transition to a multi-polar reserve-currency



system.

**34. *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, crisis management and future crisis prevention. G20 cohesion must be ensured also once the crisis is over. Looking forward, the main challenge for the G20 will be to shift smoothly from its current crisis-management role to a policy coordination role in good times, as incentives could then be weaker to sustain cooperation.

The G20 Framework for Strong, Sustainable and Balanced Growth is a key mechanism in multilateral cooperation. The aim of this framework is to help manage the transition from crisis response to a strong, sustainable and balanced pattern of global growth as well as to address the global imbalances that contributed to the financial crisis. It is now important that all G20 members fully live up to their commitments, now embodied in the Cannes Action Plan

Under the French Presidency this year, a lot of work has been done to strengthen the functioning of the International Monetary System. We achieved progress inter alia on strengthening surveillance, on devising coherent conclusions on capital flow management as well as on the monitoring and assessment of global liquidity. I regard it as important achievements that G20 countries have agreed that both areas (capital flows and liquidity) 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 assessment and that central banks are best placed to monitor global liquidity developments in the context of the central bank cooperative structures of the BIS in Basle. With regard to liquidity provision, agreement was reached to further strengthen the IMF's lending toolkit through the creation of the Precautionary and Liquidity Line.

Also, 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 agreements 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 timelines; (ii) implement the BCBS framework for Systemically Important Banks and extend the framework to encompass all SIFIs; (iii) agree on recommendations to strengthen oversight, supervision and regulation of shadow banking system; (iv) full and consistent implementation of OTC derivative recommendations. 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.

Importantly, the G20 has also taken on board the social dimension of globalisation, recognizing the importance of social protection floors adapted to national situations and of the ratification and implementation of ILO core Conventions. This is a preliminary but important step to improve the sustainability of globalisation.

### **C. Financial stability and supervision**

#### **35. *How do you see the ECB's role in banking supervision in the future?***

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

The new legislative framework entrusts the ECB with an important role in the new framework, as it provides the analytical, statistical, administrative and logistical support to the ESRB, including the Secretariat of the ESRB. This contribution will be underpinned by the activities of the ECB and ESCB in the various central banking areas (financial stability analysis, macro-economic analysis, collection of statistical information) and by the overall synergies in terms of expertise, resources and infrastructure of the EU NCBs.

The development of macroprudential surveillance within a consistent analytical framework will be a key challenge in the years to come. Macroprudential surveillance should be consistent with the macroeconomic surveillance led by the Commission. The excessive imbalances procedure actually allows to trigger in-depth analysis based on a

recommendation of the ESRB.

Finally, the ECB participates in the meetings of the EBA and will bring its contribution to the technical discussions in that forum. Furthermore, as you know, the ECB provides legal opinions on all EU (and national) initiatives that may affect financial stability, and of course CRD IV and other relevant initiatives rank high in terms of priority.

The new legislative framework does not provide for any involvement of the ECB in microprudential supervision. Looking forward, further integration in microprudential supervision is inevitable but it remains to be seen whether this would lead to consider translating at EU level the process emerging at national level whereby in an increasing number of Member States microprudential supervisory responsibilities are attributed to the central banks.

#### **D. Functioning of the ECB and democratic accountability and transparency**

**36. *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?***

In defining the responsibilities of the ECB's Executive Board, the Statute as well as the ECB Rules of Procedure emphasise the collegiality of the Executive Board as decision-making body. The current extraordinary demanding and economically very difficult environment prove the wisdom and appropriateness of this approach. Of course, each member of the Executive Board contributes to the decision-making as effectively as possible according to his/her background and professional expertise.

In this sense, the distribution of portfolios among the members of the Executive Board facilitates the day-to-day operation of the ECB, but clearly is of secondary importance in terms of decision-making. Naturally, the joining of new members of the Executive Board provides an opportunity to review the administrative allocation of responsibilities, without however altering the collective responsibility of the Executive Board.

**37. *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?***

Diversity is an asset and each system propagating an environment of diversity therefore deserves support.

For the ECB, however, the Treaty is very clear in the sense that it exclusively requires

professional expertise and experience stating that the members of the ECB's Executive Board 'shall be appointed among persons of recognised standing and professional experience in monetary or banking matters'. Considering the ECB's mandate to deliver price stability for all citizens of the euro area and that consequently analysis and decision-making always have to take a euro area perspective, the wording of the Treaty consciously refrains – rightly so in my view – from establishing any additional criteria.

**38. *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"?***

I see no contradiction between "best individual" and "best functioning collective". Outstanding reputation and achievements in a given domain combined with diversity of educational, professional and national backgrounds, should lead to a good functioning collective.

**39. *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?***

No legal basis to this end can be found either in the Treaty or the Statute. A wide range of relevant professional expertise and experience as well as diverse educational backgrounds are always assets stimulating reflections, enriching the opinion-building and ultimately leading to sound and solid decision-making.

Therefore it is in the ECB's own interest that its decision-making bodies consist of individuals with in-depth knowledge and high-level expertise, i.e. "persons of recognised standing and professional experience in monetary or banking matters", irrespective of where they earned their standing and gained their experience. In other words, I believe the ECB board could only benefit from wider recruitment, in particular from financial markets or from the academia, as is the case in other monetary policy committees such as the Bank of England MPC or the US FOMC.

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

I consider staff as key stakeholders within an organisation. As a manager of the French Treasury, I have participated in many meetings with staff representatives, either on a formal or on an informal basis. Therefore, I look forward and I am keenly interested in

participating in the dialogue with the staff of the ECB. I believe the most effective way to engage in a fruitful dialogue with staff is to ensure that the relevant information is shared timely and transparently and to seek their opinions on the relevant issues. In this respect, the staff representatives play an important role and should be consulted on changes to the employment conditions and related policies. I know that this is already an established practice at the ECB and that, in addition, Executive Board members meet staff representatives directly during an annual meeting and on other occasions, depending on the responsibilities and circumstances. I welcome this direct contact and I am eager to contribute to this dialogue.

I am also aware that the ECB conducts a dialogue with the staff representatives at ESCB level, in order to inform them on decisions to be taken by the ECB's decision-making bodies that may have a major impact on the employment situation in the central banks. These meetings should offer the opportunity to exchange views and ideas and, at the same time, to strengthen the cooperation among the national central banks which are part of the ESCB / Euro system.

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

The appointment procedure for members of the ECB Executive Board is laid down in article 283 (TFUE). It prescribes that the European Council shall appoint the Executive Board members among persons who are regarded as experts in the field of monetary policy and banking matters. However, the European Council may only do so “after it has consulted the European Parliament”. For this consultation, the Committee on Economic and Monetary Affairs (ECON) organises a public hearing with the person(s) that were previously proposed by the Council.

Past appointments have corroborated that this arrangement is adequate. It has warranted the appointment of “persons of recognised standing and professional experience in monetary and banking matters”. Since the establishment of the ECB, its members of the Executive Board have acted with responsibility and adhered to the mandate given by the Treaty. Therefore, a formal confirmation procedure would in my view not have changed the outcome of the selection process. However, it is the liberty of the Treaty parties to reconsider this.

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

The independence of central banks has established itself over the past few decades as an important element of the monetary policy regimes. The decision to grant monetary policy and hence central banks independence is firmly grounded in economic theory and empirical evidence. This arrangement is conducive to ***maintaining*** price stability.

At the same time, in democratic societies any institution entrusted with a public function must be accountable to citizens and their elected representatives. Accountability is therefore an important counterpart of central bank independence. In order to retain legitimacy, a central bank must report regularly and extensively to the democratic sovereign. The concept of democratic accountability is the guiding principle of the ECB's relations with the European Parliament, as the institution directly representing the European people.

The ECB goes well beyond its statutory reporting obligations. For instance, the ECB President appears before the ECON Committee on a quarterly basis and this practice has certainly mutually benefited both institutions and Executive Board members take part in ad hoc hearings on specific topics. Besides, the ECB's Annual Report is presented to the European Parliament. I take the recent ECON report on the ECB's Annual Report as evidence of the good interaction and understanding between the ECB and the Parliament. Furthermore, the ECB's publication and information activities address the general public and market participants. Besides the monthly press conferences by the ECB President, frequent speeches and interviews are delivered by Executive Board members. The ECB provides an extensive amount of material on its webpage, most importantly its Monthly Bulletin, scientific publications and statistical data. All in all, I am convinced the ECB has demonstrated its strong dedication to democratic accountability and reporting. I intend to keep up this track record if and when joining the institution.

**43. *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 has become one of the key features of monetary policy-making during the

last decade or two. It is about providing the public with information which is relevant to understand the central bank's monetary policy decisions. This helps the public to monitor and evaluate the central bank's performance. Transparency has contributed to a better understanding of monetary policy aiming at price stability. From the start, the ECB has emphasised that transparency is an important element of its monetary policy approach. It announced a formal monetary policy strategy with a quantitative definition of its primary objective of price stability. The Governing Council regularly explains monetary policy decisions applying that strategy. The clear and unambiguous objective of maintaining price stability provides a strong focus for all of the ECB's decisions and contributed to anchoring inflation expectations. By comparison, the Fed's approach has evolved over time. Traditionally, the Fed was rather general about the quantification of its goals. By now, in view of explanations and further clarifications by Chairman Bernanke, it can be observed that the Fed has an understanding of the price stability objective which is from a quantitative point of view similar to the ECB's definition. Quite recently, the Fed has adopted a means to communicate with the public about policy decisions similar to the ECB's practice based on giving public press conferences after the policy meeting.

Monetary policy committees may be subject to different accountability modes. Many committees emphasise collective accountability (the Fed and the ECB), but some committees, like the Bank of England, are based on individual accountability of policy-makers. Both approaches have advantages and disadvantages, and it is not always clear what transparency mode is best given circumstances. Communicating diversity of policy-makers' views in monetary policy discussions can help the public to better predict interest rate changes, but there may be also other means to achieve this intention. For the Bank of England, it is obviously the right choice to publish minutes of policy meetings. But, as shown by research for the Fed, in a system of collective accountability, the voting records may not faithfully reveal the diversity during policy meetings.

The ECB's approach is to provide information focusing on the Governing Council's collective assessment and using well established communication tools. Notably, the President's Introductory Statement at the press conference, which provides a comprehensive summary of the policy-relevant assessment of economic developments, and the monthly press conference, which includes a question and answer session provides

a platform for a timely and even-handed explanation of monetary policy discussions and decisions to the public.

**44. *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 hearing of the ECB President before the ECON Committee is an essential component of the ECB's democratic accountability. The hearings have proved to be a successful forum in a variety of aspects. First, the hearing is an opportunity for the representatives of the people of Europe to ask questions about ECB decisions and enquire detailed explanations on issues of specific interest to them. Second, it allows the ECB to explain its policy decisions to Parliamentarians and the wider public. This helps to enhance the understanding of the ECB's reasoning and hence to anchor expectations. The dialogue between the institutions is carried out in a constructive and rigorous manner and extends to topics outside monetary policy, such as immediate crisis response measures, economic governance as well as financial regulation.

Besides the interaction with the European Parliament, the ECB should maintain close relations with other EU institutions and fora, such as the Eurogroup, the ECOFIN Council and, at a more technical level, the Economic and Financial Committee and the Economic Policy Committee of the EU. Finally, the ECB was given a specific role in the operation of the financial assistance and crisis management frameworks that have recently been established.

All these contacts, however, are maintained without prejudice to the ECB's primary mandate and the independence of the ECB and its decision making bodies and staff members.

**E. General**

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

The ongoing and deepening sovereign debt crisis poses many risks and challenges to the ECB, and more in general to Europe. Three intertwined issues in my view deserve specific attention.

First, transmitting monetary policy aimed at price stability in the whole euro area is



complicated by the sovereign debt crisis. Setting interest rates that will deliver price stability in the medium term is complicated by very large uncertainty on future economic and financial developments and on the degree to which changes in the monetary policy stance are ultimately transmitted to prices given impaired transmission channels.

Constant monitoring is therefore required, as well as the willingness to take bold steps – as regards interest rates and as regards non-standard monetary policy measures – if necessary, in an environment of high uncertainty.

Furthermore, risks to euro area financial stability increased considerably in the autumn of this year, as the sovereign debt crisis and its interplay with the banking sector worsened in an environment of weakening macroeconomic growth prospects. The ECB from the very beginning of the crisis has taken decisive and swift action in response to intensified financial market tensions, and based on the ECB's assessment of medium-term risks to price stability in the euro area, through both its standard and non-standard monetary policy measures. Non-standard monetary policy measures taken by the ECB are temporary in nature and complementary, rather than supplementary, to its interest rate instrument. In this vein, it is important to note that there is no trade-off between the objective of price stability and the contribution that the ECB can make to other areas, such as financial stability.

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 and the confidence of the peoples of Europe in the long-term sustainability of national budgets needs to be restored. As detailed previously, restoring the effectiveness of fiscal rules will be the major challenge facing the EU in the months to come. Furthermore, euro area members will need to better coordinate their macroeconomic policies so as to avoid the build-up of potentially harmful imbalances. This will require a strengthening of the institutional foundations of EMU and improving the functioning of the Eurogroup to reflect better the high degree of integration of the euro area economies.

Let me finally emphasise that none of these reforms will be politically sustainable if Europe cannot deliver growth and jobs. They must therefore be complemented by strong action, to be taken both at a national and European level, to complete the internal market

and to sustain potential growth through comprehensive reforms on the supply side. Such reforms do not fall within the remit of the ECB but they should be actively encouraged since raising potential output and delivering price stability are mutually reinforcing objectives.

Continued support of EU citizens will be essential to help the ECB face these challenges. The ECB will have to remain faithful to the principles of transparency and democratic accountability and devote attention to the proper communication of its decisions, speaking with one voice.

## RIZULTAT TAL-VOTAZZJONI FINALI FIL-KUMITAT

<b>Data tal-adozzjoni</b>	12.12.2011
<b>Rizultat tal-votazzjoni finali</b>	+: 19 -: 0 0: 0
<b>Membri preżenti għall-votazzjoni finali</b>	Burkhard Balz, Sharon Bowles, Udo Bullmann, Pascal Canfin, Diogo Feio, Ildikó Gáll-Pelcz, José Manuel García-Margallo y Marfil, Jean-Paul Gauzès, Sven Giegold, Sylvie Goulard, Liem Hoang Ngoc, Syed Kamall, Othmar Karas, Jürgen Klute, Ivari Padar, Antolín Sánchez Presedo, Peter Simon, Kay Swinburne, Ramon Tremosa i Balcells