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REPORT

on the Council recommendation for appointment of a Member of the Executive Board of the European Central Bank
(C7-0195/2012 – 2012/0806(NLE))

Committee on Economic and Monetary Affairs

Rapporteur: Sharon Bowles

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PROPOSAL FOR A EUROPEAN PARLIAMENT DECISION

**on the Council recommendation for appointment of a Member of the Executive Board of the European Central Bank
(C7-0195/2012 – 2012/0806(NLE))**

(Consultation)

The European Parliament,

- having regard to the Council’s recommendation of 10 July 2012¹,
 - 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 (C7-0195/2012),
 - having regard to Rule 109 of its Rules of Procedure,
 - having regard to the report of the Committee on Economic and Monetary Affairs (A7-0348/2012),
- A. whereas, by letter of 13 July 2012, received on 18 July 2012, the European Council consulted Parliament on the appointment of Yves Mersch as a Member of the Executive Board of the European Central Bank (ECB) for a term of office of eight years;
- 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 ECB in the area of monetary policy pursuant to Article 130 TFEU, 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 had been sent to him;
- C. whereas the committee subsequently held a hearing with the nominee on 22 October 2012, at which he made an opening statement and then responded to questions from the members of the committee;
- D. whereas there was a broad consensus that the nominee is of recognised standing and has the professional qualification and experience in monetary and banking matters needed to exercise the functions of an Member of the Executive Board of the ECB;
- E. whereas, prior to the end of the term of office of Ms Tumpel-Gugerell, the issue of female representation at the ECB was raised informally by MEPs;
- F. whereas, from the creation of the ECB, until the departure of Ms Tumpel-Gugerell, there had always been a female member of the Executive Board of the ECB;

¹ OJ C 215, 21.7.2012, p. 4

- G. whereas, according to the principle of sincere cooperation between the Member States and the Union, as set out in Article 4(3) TFEU, the committee ensured, before the end of Mr Gonzalez-Paramo's mandate in May 2012, that the Council was informed, by way of letter of 8 May 2012 to the President of the Eurogroup, by the chair the committee, on behalf of all the political groups, about the lack of diversity on the Executive Board of the ECB and the need for a female candidate to be presented;
- H. whereas, in the same letter, the chair of the committee encouraged the Eurogroup to implement a medium-term plan to promote women to influential positions in the ECB, in national central banks and in national finance ministries;
- I. whereas no formal reply was received to the letter of 8 May 2012;
- J. whereas Article 2 of the Treaty on European Union lays down the principle of equality between women and men;
- K. whereas Article 19 TFEU confers powers upon the Union to combat gender discrimination;
- L. whereas gender diversity in boards and governments ensure broader competence and wider perspectives, and whereas recruiting only men or only women means a more narrow selection and risks missing out on potentially excellent candidates;
- M. whereas the terms of office of the current Executive Board of the ECB extends to 2018 so that the Executive Board is potentially void of gender diversity until that date;
- N. whereas, by letter of 19 September, the President of the European Parliament, following a meeting of the Conference of Presidents, requested that the President of the European Council make a commitment to ensure that all of the Union's institutions under his responsibility should implement concrete measures to ensure gender balance;
- O. whereas the Commission adopted a strategy for equality between women and men 2010-2015 (COM(2010)0491) on 21 September 2010 and a report on Progress on Equality between Women and Men in 2011(SWD (2012/0085) on 16 April 2012;
- P. whereas the Commission's proposal for a directive of the European Parliament and the Council on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (Capital Requirements Directive (CRD4)), included requirement for institutions to put in place a policy promoting gender diversity on the management body;
- Q. whereas the European Council adopted the European pact for Gender Equality for the period 2011 to 2020 on 7 March 2011;
- R. whereas Parliament has adopted resolutions of 3 February 2012 on women in political decision-making¹, of 8 March 2011 on equality between women and men in the European

¹ Texts adopted, (P7_TA(2012)0070).

Union - 2010¹, and of 6 July 2011 on women and business leadership²;

1. Delivers a negative opinion on the Council recommendation to appoint Yves Mersch as a Member of the Executive Board of the ECB and requests that the recommendation be withdrawn and that a new one be submitted to Parliament;
2. Instructs its President to forward this decision to the European Council, the Council and the governments of the Member States.

¹ Texts adopted, (P7_TA(2011)0085).

² Texts adopted, (P7_TA(2011)0330).

ANNEX 1: CURRICULUM VITAE OF YVES MERSCH

Born 1st October 1949 in Luxembourg. Nationality: Luxembourgish

Education

- 1973 Master of law
University Paris 1 Panthéon Sorbonne
- 1974 Postgraduate degree in international public law
Master of political science
University Paris 1 Panthéon Sorbonne
- 1975 Postgraduate degree in political science
University Paris 1 Panthéon Sorbonne

Professional career

- 1974 Admitted to the Luxembourg Bar
Teaching Assistant in public law
University Paris-Sud 11
- 1975 Assistant, Ministry of Finance
- 1976 - 1978 Secondment to the International Monetary Fund (IMF), Washington D.C
- 1978 – 1979 Attaché, Ministry of Finance
- 1980 - 1981 Financial Counsellor, Permanent Representation of Luxembourg to the United Nations Organisation, New York
- 1981 Adviser, international financial and monetary relations Ministry of Finance
- 1983 - 1999 Member of the Council of the Luxembourg Monetary Institute
(Prudential Supervisory Authority)
- 1985 - 1989 Government Commissioner for the Luxembourg Stock
Exchange (Securities Market Authority)
- 1989 - 1998 Director of the Treasury
Personal Representative of the Minister of Finance during the negotiation of the Maastricht Treaty

Since 1st June 1998 Governor of the Banque centrale du Luxembourg (third term started 11th June 2010)

Member of the Governing Council and General Council of the European Central Bank

Since 2000 President of the non-profit association “The Bridge Forum Dialogue a.s.b.l”, founded in 2000 with the participation of the European Union institutions and bodies established in Luxembourg

Since 2003 Member of the academic council of the “Institut Universitaire International Luxembourg” (IUIL)

Since 2006 Member of the board of the foundation “Luxembourg School of Finance” (LSF)

Since 2010 Member of the “Section des sciences morales et politique de l’Institut Grand-Ducal”

Deputy Chair of the Governing Board of the International Islamic Liquidity Management Corporation (IILM)

Since 2011 Elected Co-Chair of the Financial Stability Board’s Regional Consultative Group for Europe

Voting Member of the General Board of the European Systemic Risk Board

Member of the Audit Committee of the ECB

President of the “Fondation de la Banque centrale du Luxembourg” (BCL’s Foundation) that promotes research and higher education in the BCL’s fields of activity

Other official positions

Has represented Luxembourg in the following bodies:

- Monetary Committee of the European Communities (alternate member from 1982 to 1985, full member from 1989 to 1998)
- International Monetary Fund (IMF) (alternate Governor)
- World Bank (alternate Governor)
- European Bank for Reconstruction and Development (EBRD) (alternate Governor)
- European Investment Bank (EIB) (Board member)
- Development Bank of the Council of Europe (Board member)
- International Fund for Agricultural Development (IFAD) (Governor)

Administrator representing the State on the boards of the following bodies:

- ARBED S.A (steel)

- Société européenne de satellites (SES) (satellite services)
- Post and Telecommunications Company (Entreprise des Postes et Télécommunications)
- National Housing Company (Société Nationale des Habitations à Bon Marché)
- Banque et Caisse d'Épargne de l'État

President of the Export Credit Insurance Office (Office du Ducroire)

President of the Fund for the fight against the trade of narcotics

Vice-President of the Bank “Société nationale de crédit et d'investissement”

Decorations

Yves Mersch is Officer of the National Order of the Legion of Honour (France) and Grand Officer of the Order of the Cross of Recognition (Latvia).

ANNEX 2: ANSWERS BY YVES MERSCH TO THE QUESTIONNAIRE

A. Personal and professional background

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

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

Regarding both question 1 and question 2:

During my entire professional career I have been focusing on monetary and financial matters. This holds true for the various positions I held as a civil servant as well as a central banker all of which were in a European and international context.

Since May 1998 I have been President of the Luxembourg Central Bank that was established in the context of the introduction of the euro and the establishment of the ECB and the Eurosystem.

In this capacity I am also a Member of the Governing and General Councils of the European Central Bank (ECB). I have been a voting member of the European System Risk Board since its inception in 2011. The Governing Council appointed me to the Audit Committee of the ECB in July 2011.

Since 2011 I have been elected Co-Chair of the Financial Stability Forum's Regional Consultative Group for Europe.

I was appointed Deputy Chairman of the Governing Board of the International Islamic Liquidity Management Corporation in 2010.

While assistant on teaching assignment at the University of Paris-South I was admitted to the Bar of Luxembourg. One year later I started my career at the Ministry of Finance in the budget department before leaving for Washington at the International Monetary Fund. I was reinstated in the Ministry of Finance dealing with fiscal affairs and structural policies.

In 1980, I was seconded to the Ministry of Foreign Affairs where I became a member of Luxembourg's permanent representation at the United Nations in New York. The following years, I covered the fields of monetary affairs and international financial relations as Adviser in the Ministry of Finance. In 1985 I became Government Commissioner to the Luxembourg Stock Exchange, then Director of the Treasury in 1989, a post which I held for nearly ten years.

I filled several mandates within firms and institutions. Inter alia, I was a member of the board of Directors of the European Investment Bank, the Luxembourg Monetary Institute, Arbed S.A., Société Européenne de Satellites, the State Savings Bank, the Post and Telecommunications and the National Housing Company.

I also was President of the Export credit insurance, President of the Office to fight drug trafficking and Vice-President of the Luxembourg National Development Bank.

Besides, I used to be the Governor of the International Fund for Agricultural Development and the Vice-Governor of the World Bank as well as of the European Bank for Reconstruction and Development. I also was a member of the European Monetary Committee and chaired the EU Finance Ministers personal representatives group that drafted the European Monetary Union pact of the Maastricht Treaty.

Besides my professional experience, I have been President of the non-profit association “The Bridge Forum Dialogue a.s.b.l” since 2000, the year of its inception. The European Union institutions and bodies established in Luxembourg participate in this forum to exchange views within the context of European integration.

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

I have had the privilege to be involved in many negotiations and prepared decisions at the national, European and international level in economic and financial matters. Let me mention just a few occasions I consider important.

In my capacity as Personal Representative of the Minister of Finance of Luxembourg I chaired the respective drafting group during the negotiations of the Maastricht Treaty.

At my stint at the IMF I witnessed the transition to the now monetary system as set out in the 2nd Amendment of the Articles of the IMF.

I have been heading the Banque centrale du Luxembourg since its inception in 1998.

Without interruption since the introduction of the Euro I have been a member of the Governing and General Councils of the ECB contributing to the fulfilment of the mandate of the ECB.

In particular I consider the challenges which came with the Financial and Sovereign Debt Crises as an important experience. Since the outbreak of the crises I was involved in the decisions taken by the Governing Council of the ECB to mitigate the consequences to the financial sector and the real economy within the Euro area.

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

No.

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

I consider it as my first and foremost duty to fully obey the mandate of the ECB assigned by

the Treaty.

According to the Treaty the ECB's primary objective is to maintain price stability over the medium term for the euro area as a whole and – without prejudice to price stability – to support the general economic policies in the Union.

Moreover, according to the Treaty the ECB has another guiding objective – again without prejudice to price stability – to contribute to the stability of the financial system.

In line with the competences of the ECB, I will act with independence in the general interest of the Euro area and the EU as a whole. By consequence, as a board member of the ECB I shall not act as an agent of the Member State I am citizen of.

Moreover, I highly value competence, integrity, transparency and accountability.

I am convinced that collegial decision-making and a highly professional attitude are major assets for the ECB.

B. ECB monetary policy

6. Do you think that we could reach a point where we have to arbitrage between low inflation and a euro zone break-up? In such a situation, which alternative would you favour?

The European Monetary Union rests on the consensus that a low inflation environment is the best contribution monetary policy can make towards economic growth, job creation, social cohesion as well as financial stability. To preserve the support for the common currency and the integrity of the euro area it is thus of paramount importance that the ECB fulfils its mandate to ensure price stability.

The Treaty not only assigns the ECB with a clear mandate to maintain price stability, it also provides for clear limits of what the ECB can do. I believe that solving structural economic problems or fiscal imbalances is beyond the means of a central bank and has to be tackled by appropriate economic and fiscal policies.

In this regard, the governments of the euro area have expressed their firm commitment to do whatever is necessary to resolve the on-going sovereign debt crisis in the euro area and to preserve the euro. This commitment is confirmed by the encouraging progress towards regaining sound fiscal positions across the euro area and the implementation of structural reforms to regain competitiveness particularly in the more vulnerable Member States though further determined efforts are warranted. And this commitment is also reflected by the willingness of European leaders to move forward with institutional reforms at European level with the aim of making EMU fully commensurate with monetary union.

At the same time, the ECB's monetary policy during the crisis has been effective in containing worse outcomes. I am convinced that the monetary policy strategy of the ECB is very well equipped to address the challenges of the on-going crisis. Well-anchored long term inflation expectations in an environment of low inflationary pressure have allowed the ECB to reduce interest rates to very low levels, supporting economic growth. Moreover, the ECB has implemented a range of non-standard monetary policy measures in support of the

transmission process of monetary policy with the aim to maintain price stability, thereby, supporting the flow of credit to the real economic and also the stability of the euro area financial system.

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

Although some degree of national differentiation in economic and financial conditions is a normal feature in a monetary union, heterogeneity has increased in the euro area during the crisis. In particular, monetary conditions have been increasingly fragmented across countries. Money markets have become impaired, especially across national borders. The reversal of cross-border financial flows has curtailed money and credit developments in several euro area countries. This is challenging for the conduct and transmission of the single monetary policy.

The current level of heterogeneity reflects fiscal, macroeconomic and financial imbalances accumulated over time in several euro area countries, as well as varying pace in correcting these imbalances. The imbalances pertain in particular to high levels of public and private sector debts and vulnerabilities in the financial sector. Restoring competitiveness in these countries requires substantial relative price adjustments. Sound structural and fiscal policies are also needed to ensure a return to a sustainable growth path.

The monetary policy of the ECB is targeted toward the maintenance of price stability in the euro area as a whole. A number of non-standard monetary policy measures adopted during the crisis have contributed to ensure a more homogenous transmission of monetary policy across the euro area with a view to maintain price stability. Looking ahead, monetary policy cannot provide a lasting solution to the underlying causes of heterogeneity. While the ECB's policies can help to ensure a smoother adjustment process and offer temporary relief, this cannot replace the necessary structural adjustments in the euro area economies. Future policy action must deliver improvements in a variety of areas and a reinforced governance framework. The highest urge is to swiftly implement what has already been decided as stepping stones for further integration.

As indicated by the ECB President on the occasion of the press conference on 2 August, the Governing Council thinks that financial fragmentation hinders the effective working of monetary policy. We reviewed various symptoms of financial market fragmentation in our discussion. These include the share of cross-border money market loans, which decreased from 60% until mid-2011 to 40% now. The non-domestic interbank deposits are at the lowest level since the beginning of 2008 for several countries. The increasing concentration of recourse to Eurosystem liquidity-providing operations in some countries is a further illustration of this segmentation. There is a significant increase in the use of domestic collateral in the ECB refinancing operations. The share of crossborder use of collateral within the euro area stands at around 20% today compared with 50% in 2006. There is a big divergence in general collateral repo rates between euro area periphery and core sovereigns that started in late 2011. Many other signs of monetary fragmentation exist. I agree with the President that we have to overcome this fragmentation.

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

The ECB changed its allotment policy to a fixed rate tender procedure with full allotment in October 2008, because of malfunctioning euro money markets and the rapid deterioration of confidence in financial markets worldwide in the aftermath of the bankruptcy of the US investment bank Lehman Brothers. Under this allotment policy, the amount of central bank reserves which are held by banks in each period is determined by aggregate demand of banks in these auctions. High demand for central bank intermediation and large prevailing uncertainty has led to high demand from banks for Eurosystem credit, exceeding the strict liquidity needs of the banking sectors. Currently, euro area money markets display an unusually high degree of segmentation, which increasingly runs along national borders, and which has led to very elevated levels of central bank intermediation and excess liquidity of around EUR 800 billion. However, there is significant heterogeneity of banks and even whole banking systems behind this large aggregate figure. There might be individual cases, in some countries, of excessive reliance on Eurosystem funding.

Overall, I believe that, at the level of the individual bank, reliance needs to be monitored, especially with a view to avoid the proliferation of unsound business models. In the aggregate, reliance is rather a reflection of the degree of money market segmentation and financial market stress, which is currently very high.

In particular, it is the link between sovereigns and banks that makes it difficult for banking systems in countries with weaker budgetary positions to maintain or regain market access at affordable terms. Thus, I would like to emphasise that credible improvements on budgetary dynamics are of the essence also from the point of view of reducing banking systems' reliance on the central bank in some member states. Uncertainties in regulatory shifts might also contribute to the overreliance on central bank intermediation.

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

Article 127 of the Treaty assigns the Eurosystem the primary objective of maintaining price stability. The ECB's Governing Council has quantified this objective by aiming at inflation below, but close to, 2% over the medium term.

This definition takes into account also the need to support the "[...] general economic policies in the Community with a view to contributing to the achievement of the objectives of the Community as laid down in Article 2". I am deeply convinced that price stability by itself is the best contribution monetary policy can make to creating favourable conditions for sustainable economic growth and supports the Community's general economic policies. It

enhances the working of the price mechanism and promotes efficiency in the allocation of resources. Price stability also minimises the inflation risk premium in long-term interest rates and preserves the purchasing power of consumers, wage-earners, pensioners and savers.

Furthermore, the medium-term orientation of the ECBs' monetary policy helps in firmly

anchoring inflation expectations while at the same time reacting properly to economic and financial shocks hitting the euro area economy, taking also account of the time lags for monetary policy to work its way through the economy. One clear example of the importance of the medium-term orientation is the monetary policy conduct during the ongoing financial crisis. Despite inflation rates hovering above 2 % in the months to come, the decision of early July 2012 by the ECB has shown its readiness to bring interest rates down to historically low levels amid diminishing inflationary pressures over the policy relevant horizon.

Finally, the ECB has implemented a range of non-standard monetary policy measures to tackle impairments in the transmission mechanism. These measures were taken especially against the background of uncertainties and constraints with respect to banks' market-based funding truly threatening to undermine bank lending and creating pressures for a broad-based deleveraging. In this regard, the ECB's measures were aimed at supporting the flow of credit to households and companies to fulfil our primary mandate of maintaining price stability, but at the same time, have also made an important contribution to supporting economic growth and employment in the euro area.

10. What roles, relationships and challenges do you see for the ECB and the forthcoming European Stability Mechanism? Do you think the ECB should need further new instruments to cope with the euro area crisis?

The ECB and the future ESM have clearly defined and distinct mandates. The primary and overriding objective of the ECB is to maintain price stability in the euro area, whereas the ESM will be responsible for preserving financial stability in the euro area as a whole. The objectives of the two institutions – one monetary, the other one fiscal – are complementary, insofar as price stability is a necessary condition for broad macro-financial stability, and financial stability supports the smooth transmission of monetary policy to the real economy, therefore contributing to price stability.

Both institutions are equipped with tools to achieve their mandates. The ECB maintains price stability via changes in its policy rate – its standard tool – and non-standard measures to address malfunctions in the monetary policy transmission mechanism. The ESM has instruments at its disposal to safeguard financial stability and prevent contagion, including loans and precautionary credit lines to euro area member states, primary and secondary market purchases of sovereign bonds, and loans for recapitalisation of financial institutions. All ESM support is subject to conditionality.

The ECB's role within the future ESM framework is clearly defined in the ESM Treaty. Prior to a decision to grant ESM support, the ECB will be involved in assessing whether there is a risk to the financial stability of the euro area as a whole, determining the financing needs of the ESM Member concerned, and liaising with other institutions in view of the negotiation and monitoring of Memoranda of Understanding detailing policy conditionality. Moreover, the ECB will assess whether exceptional financial market turbulence and risks to financial stability are present warranting the activation of secondary market purchases by the ESM. Moreover, the ECB and the EFSF have signed an agency agreement, mandating the ECB to conduct market operations on behalf of the EFSF, and it is expected that a similar agreement will be concluded with the ESM.

As regards instruments to cope with the euro area crisis, the ECB has all the tools it needs to maintain price stability in line with its mandate and within the limits of the Treaty. Addressing broader aspects of the euro area crisis is not the remit of monetary policy and has to be dealt with by determined measures from the euro area Member States.

At its meeting on 2 August, the ECB Governing Council said that governments must stand ready to activate the EFSF/ESM in the bond market when exceptional financial market circumstances and risks to financial stability exist – with strict and effective conditionality in line with the established guidelines.

The adherence of governments to their commitments and the fulfilment by the EFSF/ESM of their role are necessary conditions. As stated by the President at the press conference on 2 August, the Governing Council, within its mandate to maintain price stability over the medium term and in observance of its independence in determining monetary policy, may undertake outright open market operations of a size adequate to reach its objective. In this context, the concerns of private investors about seniority will be addressed. Furthermore, the Governing Council may consider undertaking further non-standard monetary policy measures according to what is required to repair monetary policy transmission. Any convincing market activity is however contingent on a credible road map for further integration in the fiscal, financial and political area.

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

The ECB publishes the outstanding amounts of the SMP and the CBPP2 once a week.

12. The ECB has undertaken non conventional monetary policy operations over the last four years. Would you analyse it as an important subsidies to the banking sector? If yes, what amount would that be equivalent to? What do you perceive to be the schedule for the ECB to exit from the current non-standard measures?

The main goal of the non-standard measures adopted by the ECB is to contribute to a functioning transmission mechanism of monetary policy. For example, the ECB aimed at providing refinancing support to euro area banks balance sheets through its longer term refinancing operations with a maturity of 3 years as well as through its full allotment procedure in all operations. As also stated by the ECB President in his hearing before the European Parliament's Committee for Economic and Monetary Affairs, these measures had become necessary in the presence of elevated liquidity risk premia as a consequence of increased uncertainty and financial market volatility and because euro area banks faced an increasingly challenging environment for the refinancing of their business. The ECB's measures have contributed to lowering these premia and have stabilized bank funding, and both measures can be seen as aimed at reducing a market distortion.

The non-standard measures have been adopted in order to safeguard the transmission of the single monetary policy which is geared to preserve price stability in the euro area. As all monetary policy measures they have an impact on the balance sheet of banks and other

economic agents, which is part of the transmission process.

The non-standard measures are in place for as long as needed. Given their strong impact on market prices, however, close monitoring of the evolution of the situation and their continued need is of the essence in order to avoid potential negative side effects of these measures from emerging. These measures are temporary in nature and by construction. They are under regular monitoring for their usefulness.

13. 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?

The Eurosystem takes into account many features when assessing the credit standards of eligible assets as collateral in monetary policy operations. Ratings from credit rating agencies are one important factor, but not the only input used to assess the quality of the assets and to guarantee a high risk protection. In the case of sovereigns that are under an IMF-EU adjustment programme, for example, the ECB's assessment of the programme and the country's compliance with this programme play a crucial role.

The Eurosystem Credit Assessment Framework has been designed to ensure adequate risk protection for the Eurosystem in its monetary policy operations. It lays down the standards that the ECB applies for securities, including government bonds of euro area countries. The Eurosystem can limit the use of securities, reject securities, or apply additional haircuts to them, on the basis of any information it considers relevant, if this is needed to ensure that risk taking in monetary policy operations remains adequate.

I support the G20's commitment to further reduce the reliance on credit rating agencies, as it has also repeatedly been called for by the EP's Committee for Economic and Monetary Affairs in the context of a review of EU regulation on credit rating agencies. To my knowledge, the Eurosystem is actively working in this direction, notably by strengthening its own internal credit risk assessment capacities and by enhancing its due diligence capacities with regard to external credit assessment systems. This requires a gradual approach so that a credible and suitable alternative to assessing creditworthiness can be developed internally.

14. What is your assessment of the success of the recent Private Sector Involvement (PSI) initiative to restructure Greek debt? How can we be sure that it would not be needed again?

The restructuring of Greek sovereign debt implemented in March-April 2012 reduced the outstanding stock of public debt by €106 billion or 50% of GDP.

This result was facilitated by the use of collective action clauses that helped achieve the participation rate of 96%. However, while this debt restructuring contributed to restoring public debt sustainability in Greece, this objective can ultimately only be achieved if the Greek authorities demonstrate perseverance in implementing the economic adjustment programme. Unfortunately, after the approval of the second programme for Greece, policy implementation came to a virtual standstill, while macroeconomic prospects deteriorated further. These factors have negatively impacted Greece's debt sustainability. The priority is now for the new government to bring the programme back on track. I do not consider a

discussion about another round of debt restructuring as helpful at this stage. First, this discussion would further undermine incentives for the Greek government to implement the programme. And second, it would also have the potential to undermine incentives for fiscal consolidation and structural reforms in other vulnerable euro area countries.

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

Target2 liabilities and correspondingly Target2 claims on the balance sheets of national central banks in the euro area have grown sizeably during the financial crisis. This is because the banking systems of some countries face payment outflows which are not matched by payment inflows and cannot be compensated by funds raised in the market. Compensation comes instead from borrowing at the national central banks against collateral. At the same time, the countries where the payments are inflowing display Target2 claims.

The Target2 balances reflect the Eurosystem's support which ensures that solvent banks are not liquidity-constrained and that capital can freely flow between Member States. Target2 imbalances of the current extent could be avoided if the disruptive link between banks and their governments, in which weak banks drag down governments and vice versa, is dissolved, i.e. banks become truly European as a long term objective. In case a financial market union is credibly established, accompanied by a well-functioning fiscal compact and macroeconomic imbalance procedure, Target 2 imbalances would become much less pronounced.

These imbalances can also be influenced by netting infrastructures which operate at international level located in a few countries.

16. 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 Treaty is very clear: a "high degree of sustainable convergence" has to be achieved before a country can adopt the euro. This means that a simple mechanical reading of the convergence criteria, laid down in Article 140 of the Treaty, is not enough. What we need is an assessment of the durability of euro adoption. If economic convergence is not sustainable, countries will eventually experience problems, such as competitiveness losses and/or boom-bust cycles. The euro area experience has provided overwhelming evidence of how important it is to carefully assess the readiness of a country to adopt the euro based on reliable statistics. This also applies to the participation in ERM II, which is a necessary precondition for euro adoption. Member States must demonstrate that they can maintain price stability, fiscal discipline and competitiveness without major exchange rate adjustments.

Overall, the pace of euro adoption differs from country to country as it depends on the degree of convergence achieved. Regarding the New Member States that have not yet adopted the euro (i.e. Bulgaria, the Czech Republic, Latvia, Lithuania, Hungary, Poland and Romania) the European Commission and the European Central Bank made their latest assessment in the 2012 Convergence Reports which were published on 30 May. At that point in time, none of these countries fulfilled all economic and legal criteria to adopt the euro.

17. What is your perspective on the "Beyond GDP" initiative?

It is a key task for policy makers to envisage maximising the welfare of their citizens in a sustainable manner. In this respect it is essential and should be welcomed to constantly strive for the best possible measure of welfare. As reflected by the debate in the Economic and Monetary Affairs Committee, different measures are suitable depending on the objective in question. The advantage of the GDP measure is that it captures relatively well a country's macroeconomic activity. Its use is suitable whenever economic activity is analysed or related to another economic variable, such as public debt levels.

Therefore, high quality statistics of GDP (and potential output) are essential. However, it seems natural to complement pure output measures, such as GDP, with other indicators when assessing overall welfare of the population in particular in a longer-term perspective. Such indicators could inter alia include the state of the environment, social inclusion or the health system. The data from the currently running Household Finance and Consumption Survey of the Eurosystem will add interesting information concerning the distributional aspects of debt and wealth.

18. What are, according to you, the main challenges for the European Statistical System in the next decade?

The recent financial crisis has demonstrated how important it is for European statistics to be timely, reliable and of high quality. This importance of statistics for policy making is likely to increase further. Ensuring the credibility of official European economic and financial statistics will be a necessary condition to support an integrated economic governance framework in the EU and global macroeconomic surveillance assessing sustainable and balanced growth within the G20. For that, comparable high-quality country data and more granular data will be needed. The recently updated international statistical standards will have to be implemented in a coordinated manner across the EU. Equally important is the credibility – and independence – of the institutions producing these statistics and that the results are communicated and easily available to the public as a free public good.

European statistics are developed, produced and disseminated by both the European Statistical System (ESS) and the European System of Central Banks (ESCB). Eurostat and the EU national statistical institutes (NSIs), the ESS, will be confronted with the challenges of strengthening their quality management systems based on the European Statistics Code of Practice and on their independence. All EU countries will have to sign the planned Commitments of Confidence. Moreover, the ESS will need to cooperate even closer with the ESCB in the successful framework of the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB), coordinating and streamlining the data collection and production processes. This should help to maintain – or even raise – the quality of statistics, while reducing the overall cost of producing European statistics.

C. Views on EU economic policy

19. What should be done to stop the crisis?

The crisis must be addressed at both the national level – through fiscal consolidation and structural reforms to lift the growth potential – and at the European level - through enhanced governance and integration.

To combat the crisis, its root causes must be addressed: excessive government indebtedness, insufficient competitiveness and undesirable developments in the financial sector. Therefore, highly indebted governments need to reduce their debt-to-GDP ratios over the medium term in full compliance with the strengthened EU governance framework. This is all the more important as high government debt ratios themselves weigh on growth. To limit its potential initial negative impact on growth, fiscal consolidation should focus on higher spending efficiency and avoid undue cuts in public investment. Such credible medium-term fiscal adjustment will increase financial market confidence and lead to lower risk premia. This will feed through to the private sector and eventually generate higher growth.

The necessary comprehensive fiscal consolidation in Europe needs to be accompanied much more forcefully by structural reforms aimed at raising potential growth and improving the shock absorption capacity of national economies. Most of the countries that are currently under financial market pressure have already started to introduce important reforms. While further measures to reduce existing rigidities in product and labour markets appear politically particularly challenging in the environment of subdued growth, they are inevitable to achieve sustainable growth in the medium- to long-term.

Therefore, competition should be further strengthened in product markets, not least by the completion of the Single Market, and wages should adjust in a flexible manner, reflecting labour market conditions and productivity.

Furthermore, sustainable productivity growth needs to be promoted through inter alia facilitating investments in research and development and ensuring a high quality of education and life-long learning. Such measures are likewise instrumental to increase non-price competitiveness. Together with improvements in price-competitiveness, such measures are likely to promote Member States' export performance and strengthen import-competing firms, facilitating the necessary rebalancing where macroeconomic imbalances still prevail.

To safeguard growth, stability and prosperity in a sustainable manner, a determined move towards a genuine Economic and Monetary Union is necessary. The proposals presented by the President of the European Council in close collaboration with the Presidents of the Commission, the Eurogroup and the ECB in June 2012 point into the right direction. While the crisis has fostered the needed strengthening of the rules-based fiscal framework, more steps towards a fiscal union are necessary to ensure that all euro area countries - and the euro area as a whole - pursue sustainable fiscal policies at all times. The euro area also needs to move towards an integrated economic policy framework to increase the peer-pressure on countries to implement necessary structural reforms.

In addition, financial sector reforms are necessary in most Member States. The political commitment to introduce a unified supervisory regime under Art. 127(6) TFEU needs to be implemented.

Finally, it is very important that deeper integration in EMU is accompanied by enhanced

accountability, in particular vis-à-vis the European Parliament, to ensure the democratic legitimacy of this process.

20. What would the issuance of Stability Bonds/Eurobonds imply for economic governance in the euro area? Do you have preferences among the options presented by the Commission in its Green Paper?

The introduction of Eurobonds or any common debt instrument involving large mutual fiscal obligations is critically dependent on appropriate sequencing. It is only feasible after a significant transfer of fiscal sovereignty to the EU level with the aim of achieving genuine economic union in the euro area. Without such a transfer of sovereignty, enabling effective economic governance, common debt issuance would lack credibility, create a situation of moral hazard and risk weakening incentives for sound fiscal policies which are essential in economic and monetary union. Sound fiscal policies also contribute to the pursuit of price stability by the Eurosystem.

With the correct sequencing, common debt issuance, nonetheless, also offers potential benefits for financial integration and market functioning as well as for financial stability. Therefore, once a credible fiscal union with appropriate democratic legitimacy has been achieved, I would see common issuance of sovereign debt by euro area Member States as a possible complement.

21. 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.

Member States need to increase their economies' growth potential, which has been relatively modest and diminishing in most European countries in previous years, in a sustainable manner. In order to achieve this, Member States' economic policy should support innovation, provide a business friendly environment and enhance competitiveness through the reduction of existing rigidities in product and labour markets. Such an environment would create optimal conditions for sustainable economic growth and job creation.

The agreed Europe 2020 strategy and the Euro Plus Pact, to which a large number of EU countries committed themselves, highlight important areas of structural reforms which countries need to target. The order of importance of structural reform is highly country-specific and varies across EU countries. This notwithstanding, growth-enhancing structural reforms consisting of ambitious reforms enhancing flexibility and competition in product and labour markets are needed in most Member States and in particular in the euro area where the key adjustment mechanism is price and wage flexibility. Labour markets reforms should ensure that wages develop in line with productivity as they have a direct impact on countries' competitiveness. Flexibility of wages is in particular needed in periods with subdued productivity growth. To facilitate this, automatic wage indexation clauses should be eliminated, employment protection legislation carefully scrutinised, and firm-level agreements strengthened. In addition, changes to unemployment insurance systems and active

labour market policies should facilitate the reallocation of resources towards more competitive firms and sectors. With regard to product markets, excessive rents in particular in sheltered professions should urgently be addressed. Boldness in the face of lobbying by privileged groups and sector interest is warranted to increase competition and open closed professions and liberalize immigration. Excessive profit margins are particularly prevalent in domestically oriented service sectors.

Innovation should be supported through investment in research and development but also in higher education and lifelong learning. Vocational education has been proven particularly successful in certain Member States to hold down youth unemployment and could be emulated by countries with currently high unemployment rates among young people. Moreover, the business environment could be improved in many Member States through reducing red tape. The implementation of these measures remains the core responsibilities of Member States. Against the background of the current crisis, which among others revealed the weaknesses of the existing EU mechanisms for economic policy coordination, ways to strengthen incentives for Member States to pursue the necessary structural reforms should be explored, including ways to reinforce peer pressure among Member States.

In my opinion, the ECB best contributes to a sustainable growth and fostering long-term private-sector investment by ensuring price stability.

22. What is your view on the taxation 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? What are your views on the possibility of a financial transaction tax being implemented only in a number of Member States?

There are many different proposals on the taxation of financial transactions. Taxing currency transactions is particularly problematic, as it restricts the free movement of capital. The latest proposal by the Commission excludes currency transactions, but I still see several drawbacks of a financial transaction tax. Proponents argue that an FTT could simultaneously (i) reduce volatility in financial markets, (ii) safeguard the integrity of the single financial market and (iii) raise revenues that could serve to internalise the cost of banking resolution. While each of these objectives is desirable in its own end, I doubt whether a financial transaction tax can achieve these objectives. The intended reduction in volatility, for example, has not been confirmed in theoretical or empirical research. Quite to the contrary: by increasing the transaction cost market liquidity would be reduced.

In addition, for each of the stated objectives more suitable policy instruments have been proposed and are under discussion. Some practices of algorithmic trading could be addressed through regulation. Banking resolution funds may be more appropriately funded through bank levies

If an FTT was to be implemented, it should be recalled that an FTT suffers from a very elastic tax base that would be subject to multiple forms of evasion and avoidance activities if not implemented world wide. A selective introduction of an FTT would render some of the original objectives impossible, most notably a harmonisation within the EU Single financial market.

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

The roles of the Council and the ECB in the field of external representation derive from their respective policy competencies which are set out in the Treaty. Accordingly, the ECB has the exclusive competence to represent the single monetary policy and its other tasks. The euro exchange rate policy is a competence that involves both the Council and the ECB. Economic policies, by contrast, have largely remained in the responsibility of Member States, who also represent these policies externally. That said, Europe – and in particular the euro area – is currently in a process of substantially reinforcing its economic governance structures. Over time, this process should be mirrored by a strengthened coordination of the external representation of these policies at the global level. In this context, Article 138 TFEU provides an avenue to ensure a common representation on matters of particular interest for EMU in international fora. However, this is ultimately a political question and therefore for Member States to decide.

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

With the intensification of the euro area sovereign debt crisis in the second half of 2011 the euro has depreciated vis-à-vis the US dollar amid elevated exchange rate volatility. Since July 2011, the euro has depreciated by around 15% against the US dollar. The weakening of the euro was largely related to heightened global risk aversion amid tensions in some euro area debt markets and a deterioration of the global growth outlook.

From a long-term perspective, the euro continued to be a remarkably stable currency, also when compared with other major currencies. At around 1.20 to 1.25 USD per euro, the euro in July/August 2012 stood close to its long-term average since its inception in 1999. This highlights the fact that the ongoing euro area crisis has not endangered the value of the currency, be it internal or external.

25. 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?

As the Chinese currency continues to trade in a relatively narrow band vis-à-vis the US dollar, the evolution of the Chinese renminbi/EUR exchange rate depends largely on the development of the euro vis-à-vis the US dollar. The Chinese RMB's appreciation of close to 4% against the euro since the start of the year was, in this respect, a result of the euro's depreciation vis-à-vis the US dollar (5%), while the RMB lost more than 1% against the US dollar. Since the People's Bank of China (PBoC) announced to widen the daily fluctuation band of the renminbi vis-à-vis the US dollar in mid April 2012, the RMB's rise against the US dollar has lost track. While the announcement cannot be seen as a stronger commitment by the PBoC to allow a more pronounced appreciation trend, the decision is welcome from a euro area perspective as greater currency flexibility is a pre-condition for further opening up

of China's capital account.

This will hopefully help strengthen market participants' pricing and risk management capabilities and buttress other much needed financial sector reforms.

I support the Eurosystem's neutral approach that the international use of the euro should neither be hindered nor encouraged. The international use of currencies is essentially the outcome of a market-driven process. 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. As mirrored in the euro's relatively stable exchange rates against the other major reserve currencies, the international role of the euro has remained relatively stable throughout the euro area sovereign debt crisis.

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

The G20 is the main forum for cooperation of economic policies at the global level. It specifically has played an important role during the global financial crisis of 2008-09 and now during the European crisis in constituting a forum for exchange and cooperation and a broad spectrum of economic and financial issues. As such, the G20 overall has been a success since it has come to play this role since 2008.

Its efforts to strengthen the functioning of the international monetary system are welcome as well as its endorsement of the key building blocks of global regulatory reform by the Basel Committee and the FSB.

In this context; I particularly welcome the establishment of six regional consultative groups FSB with the aim to bring together financial authorities from FSB member and non-member countries to promote financial stability and to exchange views on vulnerabilities affecting financial systems. The FSB announced the arrangements in November 2010 to expand and formalise outreach beyond its membership. I have the privilege to co-chair the Regional Consultative Group for Europe with my British colleague.

However, the success of these international efforts will hinge upon the implementation on the national level in line with the Framework for Strong, Sustainable and Balanced Growth. Indeed, at both the European and global levels, resolute implementation of policy commitments is key.

D. Financial stability and supervision

27. Are you in favour of a banking union? If yes, what shape should it take? Should the ECB play a role in the supervision of financial institutions, and if yes, which one? If yes, what accountability changes should be in place? Should EBA be delegated some powers of supervision?

In order to cope with the structural weaknesses of the financial stability framework, and in particular to break the nexus between the banking sector and sovereigns, the euro area

requires a banking union with a single euro area banking supervision authority, supplemented by European wide solutions for resolution in line with the FSB key principles and over time a EU deposit insurance mechanism.

At the European Council meeting and the euro area summit in June 2012, Heads of State or Government have given a commitment to activate Art 127(6) of the TFEU and entrust the ECB with supervisory tasks for the banks of the euro area.

In my view, the ECB should be vested with supervisory powers in accordance with the following principles:

First, the conduct of supervision should be based on a clear and effective separation from the conduct of the single monetary policy. The ECB's primary objective as enshrined in the Treaty is to ensure price stability in the euro area.

Second, supervisory responsibilities should be effective and encompassing in order to minimise potential reputational and economic risks. This implies that the supervisory perimeter of the ECB should include all euro area banks while the supervisory tasks themselves would be organised in a decentralised way.

Third, the operational conduct of supervisory tasks should be decentralised to the largest extent to national supervisors. This will ensure close proximity with the supervised entities, and is also in line with the principles of proportionality and subsidiarity. At the same time, national supervisory tasks should be conducted in close coordination with the ESCB by granting the ECB access to all relevant information in a timely manner and through regular reporting procedures.

Fourth, the supervisory tasks should be carried out with the necessary independence safeguards. Central bank independence is of the essence as regards monetary policy and it can also shelter supervision from undue external interference, as well as from the risk of regulatory capture.

Finally, supervision should be subject to high standards of democratic accountability to ensure confidence in the conduct of this public function in the euro area. The channels of accountability for supervision would need to be, to the maximum extent possible, separate from that of monetary policy.

Turning to the relations with the EBA, the ECB would conduct supervision in compliance with EU legislation and in line with EBA standards. The ECB would therefore further support certain core activities of the EBA, such as those that promote EU-level supervisory convergence. It would not replace any of the functions of EBA, only those of national supervisors. As a result, the ECB competences would not conflict with the EU legislation or the role of the EBA.

28. What are your views on the regulation on shadow banking entities?

From a prudential point of view it is important that risks inherent to banking activities are addressed as such in a comprehensive and systematic way rather than dealing with institutions defined as regulated banks only. Work is being carried out both by the FSB and the European

Commission to identify areas for possible regulatory intervention. In my view, regulatory initiatives might address the following issues.

First, it is important to promote the appropriate risk management on banks of their exposure to shadow banks and to minimize incentives within the regulatory framework that favour dealing with shadow banks ahead of regulated banks.

Second, regarding money market funds, it is still debated whether to move in a mandatory way to variable net asset value in order to limit the risk of runs on money market funds. The Eurosystem considers that there is a need for additional measures limiting maturity transformation and credit risk.

Third, it should be further considered whether certain provisions of CRD IV should be applied to non-deposit-taking finance companies with the aim of limiting the scope for future regulatory arbitrage for providers of credits.

Fourth, an important strand of work of the FSB relates to possible initiatives on repo and securities lending activities. Issues being addressed include: the procyclical nature of margin requirements used in securities financing transactions; and the risks related to the rehypothecation and re-use of clients' assets. The FSB will present a report on these issues at the end of this year. This report will form the basis for considering which specific initiatives should be undertaken in the EU.

As regards the repo markets in general, I support the recent proposal by the Eurosystem for appropriate initiatives at the EU level, as a joint effort by public authorities and the financial industry, to establish a central database to gain better knowledge of the securities financing and repo markets. Obtaining more information on repo market activities is important for both monetary policy implementation and financial stability considerations.

E. Functioning of the ECB and democratic accountability and transparency

29. 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?

Under the corporate governance set-up established by the Treaty and the ECB/ESCB Statute, the Executive Board of the ECB is a collegial decisionmaking body. The responsibilities are indeed allocated to the Executive Board as such and not to its members individually. This precisely allows capitalising on the varied backgrounds and professional expertise of the Executive Board members. Such combination of skills and approaches is and has proven to be an extremely valuable asset for any institution; the more so in challenging times as we are currently experiencing.

At the same time, to facilitate the day-to-day operation of the ECB, direct reporting lines have been established between the individual members of the Executive Board and the various ECB departments, according to the allocation of portfolios decided among Board members. This administrative allocation of managerial responsibilities does not prejudice the collegial nature of the decision-making by the Executive Board. The distribution of portfolios is reviewed from time to time.

30. 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 a valuable asset. It allows confronting and reconciling different approaches, and thereby enriches and strengthens decision-making. It is therefore important to promote diversity.

This being said, the only conditions provided in the Treaty and the ECB/ESCB Statute for the appointment of members to the ECB's Executive Board relate to their professional expertise and experience: "the members of the Executive Board shall be appointed from among persons of recognised standing and professional experience in monetary or banking matters". The applicable legal framework leaves no room for establishing further criteria in addition to those laid down in the existing Treaty provision.

31. 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?

What is your view on the issue of "revolving doors" between supervisory or regulatory bodies and private institutions of the same field?

As already pointed out in my answer to the previous question, diversity is a valuable asset that enriches and strengthens decision-making. This equally applies to diversity in terms of relevant professional background and experience: it stimulates reflection, enriches the opinion-building and is conducive to sound and solid decision-making.

The Treaty does not restrict the recruitment base for the ECB's Executive Board to a particular profession but, in the ECB's own interest, it focusses on the candidates' knowledge and experience. The Treaty indeed requires that the candidates have a 'recognised standing and professional experience in monetary or banking matters', irrespective of where they earned their standing and gained their experience.

By the way, the fact that a central banker is selected to become a member of the ECB's Executive Board does not mean that this person has made his/her entire career in central banking. In fact, many of us (including myself) had previous professional experience either in another field of the public sector (Treasuries), academia and/or private (financial) sector. My legal background and education might bring an additional aspect of diversity to the ECB's Executive Board.

The risk of conflict of interest after the expiry of the mandate of a member of the ECB's Executive Board is addressed in the applicable legal framework. For example, the Code of Conduct for the Governing Council members imposes a one year cooling off period during which past members must continue to avoid any conflict of interests that could arise from any new private or professional activities. In addition, the conditions of employment for members of the ECB's Executive Board prevents them from accepting any staff, managerial, advisory or consulting position, whether remunerated or not, with an entity that has been a counterpart in Eurosystem monetary policy or foreign exchange operation.

This prohibition applies within one year following the end of their duties, subject to any decision of the Governing Council.

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

Maintaining a fruitful dialogue between employers and employees is not only essential for the motivation of staff but also for the sound governance of an organisation.

I am aware that the ECB consults staff representatives on changes to the employment conditions and related policies and I am committed to support this practice. Further, as candidate member of the ECB Executive Board, I welcome its current practice to meet staff representatives directly in an annual meeting and on other occasions, depending on the responsibilities and circumstances. In general, I consider it important to maintain trust and understanding between the ECB's representatives and the staff representatives.

The ECB also conducts a dialogue with the ESCB staff representatives, 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.

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

According to Article 283 TFEU the main objective of the procedure for the appointment of a member for the Executive Board of the ECB should be to ensure that “persons of recognised standing and professional experience in monetary and banking matters” are selected for this position. The Treaty assigns the right of appointment to the European Council but it may only do so “after it has consulted the European Parliament”.

Judging by previous and existing appointments, the current system has very adequately delivered candidates who have discharged their duty admirably. From this perspective, I do not detect strong indications that would warrant a review of this practice. However, it is not for a central banker to decide upon such procedural questions which are – rightly so- strictly within the domain of the Treaty parties.

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

Democratic accountability is essential to ensure the legitimacy and the fulfilment of the primary mandate of the ECB vis-à-vis the public and political authorities. The European Parliament, as the only directly elected European institution plays a fundamental role in holding the ECB to account. Mechanisms of accountability thus ensure the ECB is acting in accordance with its mandate. The ECB has been entrusted with strong independence by the Treaty, based on evidence that such arrangement is the most adequate to ensure price stability.

At the same time, the ECB has committed to fulfil the highest standards of accountability

towards the public in general, the European Parliament as well as financial market participants and goes far beyond the statutory obligations in its regular reporting activities. Most importantly, the ECB publishes an Annual

Report, a Monthly Bulletin, weekly financial statements and a large variety of additional reports and research papers, which are made accessible to the general public on the ECB website. The ECB website furthermore provides the public with ECB legal opinions, ECB legal acts – for example concerning monetary policy operations, a broad collection of statistics as well as detailed information for special-interest users. Once a month, the ECB explains its monetary policy decisions in press conference and responds to questions from journalists, which represents a uniquely open and transparent approach to central bank communication. The ECB's commitment to accountability and transparency is also illustrated by the numerous speeches delivered by the members of the Governing Council. I very much support the ECB's approach of real-time, regular and comprehensive explanations of its monetary policy assessment and decisions. Information technologies, such as the internet, are a valuable opportunity to make information available to a large audience at very low cost.

The European Parliament in its function as the democratically elected body on European level holds the ECB to account. Once a year, the European Parliament adopts a Resolution on the ECB Annual Report, which is published on the day it is presented to the European Parliament.

In the Quarterly Monetary Dialogue, the ECB President reports on monetary policy actions. In my view, this dialogue has been very fruitful throughout the crisis in explaining the ECB's policy measures. Repeatedly, the hearings initiated a broad public debate on measures to overcome the economic challenges.

NCBs are in a similar situation in their relation to national parliaments according to their legal framework. In my capacity as Governor of BCL I have experience to follow invitations by the national Parliament to express views on the economic situation, financial stability, the fiscal position, structural issues etc.

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

A transparent monetary policy provides the public with information which is relevant to better understand and gauge the central bank's monetary policy. Transparency helps the public to evaluate the central bank's performance. Moreover, it helps the public in forming expectations about the central bank's future policy course, facilitating the achievement of the central bank's mandate. Therefore, transparent communication and interaction with the public is today widely acknowledged to enhance the credibility, predictability and effectiveness of monetary policy. From the start, the ECB has emphasised that transparency is an important element of its monetary policy approach, presenting and explaining its policy decisions in an open, clear and timely manner to the general public.

The ECB announced a formal monetary policy strategy with a quantitative definition of price stability. Moreover, the policy decisions are explained by the President of the ECB in a

monthly press conference, press statements and many other publications of the ECB. It is fair to say that by now the Fed's approach has to a large extent converged to the ECB's practice. In January 2012 the Fed has clarified that an inflation rate at 2% over the longer-run is now considered as most consistent with the Fed's mandate. This definition of price stability is very similar to the ECB's definition to maintain inflation below, but close to, 2%. In 2011 Chairman Bernanke also started to give press conferences after some of the meetings of the Federal Open Market Committee; a practice – and I very well recall this deliberate decision – which the ECB already adopted in its early days, i.e. in 1998.

Transparency not only helps the central bank to carry out its mandate more effectively, but also enables it to be more easily held accountable for its actions. Yet, as different tools are available for central banks to enhance their communication, the central banks must choose the most appropriate communication channel depending on the circumstances. Notably, monetary policy committees may be subject to different accountability modes. While many committees are subject to a system of collective accountability (the Fed and the ECB), some others are based on individual accountability of policymakers, like the Bank of England. Both approaches have advantages and disadvantages, and an impact on the central bank's communication. Where the publication of the minutes of the monetary policy deliberations might help the public to better predict future interest rate changes, this advantage has to be balanced against the risk that the public might by the same token attach more importance to individual opinions than to the relevant economic arguments and the majority decision taken especially in the absence of a political union.

Besides, in the case of the ECB, the Treaty itself establishes the confidentiality of the proceedings of the Governing Council's meetings. This provision aims at guaranteeing the independence of monetary-policy decision-making and ensuring the collective accountability of the Governing Council members as a whole. These circumstances justify that the ECB provides information focusing on the Governing Council's collective assessment. The President's monthly 'Introductory Statement' provides the public with a comprehensive summary of the policy-relevant assessment of economic developments. The monthly press conference held immediately after each monetary policy meeting, including a question and answer session, provides a platform for a timely explanation of monetary policy discussions and decisions.

In addition, the ECB also publishes on its website, at the end of each month, a short summary of the decisions taken by the Governing Council outside the field of monetary policy. Since through these channels, comprehensive information and explanations are made available to the public in real-time, I see no strong case for changing the current practice.

36. 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 current regular quarterly hearings are one of the key mechanisms of democratic accountability of the ECB. They facilitate discourse between MEPs and the ECB and more recently in the context of the crisis have allowed for valuable discussion on potential resolution measures. They also crucially allow the ECB to explain the underlying logic and

reasons for the measures it takes. Therefore, the Quarterly Monetary Dialogue is an important tool of communication to the Parliament as well as the public in general. Whilst efficient working relationships must be maintained with other political bodies such as the Eurogroup and the ECOFIN Council, particularly in the context of the resolution of the financial and sovereign debt crisis, it is very important that the European Parliament remains the sole body to hold the ECB to account. Given the ECB's mandate to maintain price stability for the euro area as a whole, the European Parliament is the appropriate institution for discharging democratic accountability in the form of the monetary dialogue.

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

The euro area is currently confronted with a multifaceted crisis, the elements of which are closely interlocking – highly volatile sovereign debt markets, an unstable financial sector, and low or negative growth in several of its Member States. Thus the ECB is faced with several significant challenges.

At the heart of the ECB's domain of responsibility lies the conduct of monetary policy with the aim of ensuring price stability for the euro area as a whole.

Worryingly, the crisis has impaired the proper transmission of the ECB's monetary policy stance to the economies of Member States. More specifically, monetary policy interest rates are not passed on to the economy in the same way as before the crisis. In response, the ECB has resorted to non-standard monetary policy measures with the aim of sustaining the transmission mechanism and ensuring that interest rates are properly passed on to the real economy. Constant monitoring is required, and the ECB has to take bold steps when needed to ensure the fulfilment of its mandate.

Given that the crisis is affecting countries across the euro area in different ways, we have also seen increased divergence in economic indicators across the euro area. Within this environment of increased heterogeneity, the ECB has to continue fulfilling its mandate of ensuring price stability for the euro area as a whole. The ECB's carefully designed policy response has helped to reduce heterogeneity in financial conditions, allowed for a differentiated take-up of non-standard measures across the euro area, and smoothed the transmission of monetary policy. Nonetheless, heterogeneity will continue to be a policy challenge for the ECB as long as euro area economies remain vulnerable.

In particular, risks to euro area financial stability continue to prevail in light of the persisting sovereign debt crisis and its interplay with the banking sector. In line with its mandate to preserve price stability, the ECB has taken swift and decisive action to provide liquidity to euro area banks in a period of heightened uncertainty. This has to a large extent prevented liquidity problems from turning into solvency problems and thus supported financial stability. However, more fundamental imbalances in the banking system need to be addressed by the appropriate authorities. Decisive action by policy-makers towards establishing a financial market union in the euro area is necessary to set the banking system on a sound footing for the future. The establishment of a single supervisory mechanism is an important step in this respect.

Finally, the current crisis has revealed weaknesses in the governance framework

of EMU. Policies adopted by European sovereigns were inconsistent with membership in a currency union and, in turn, have in some cases undermined confidence of financial markets in the long-term sustainability of national budgets. In many cases, fiscal consolidation and structural reforms before the crisis were insufficient. A substantially reinforced European economic governance framework is urgently needed. While significant progress has been made – the strengthening of the Stability and Growth Pact, the introduction of the European Semester, the adoption of the Fiscal Compact and the establishment of a European crisis resolution mechanism – more needs to be done. In addition to establishing a financial market union, the euro area needs to make progress towards integrated policy frameworks for fiscal and economic policies as well as towards political union, so as to ensure the political legitimacy of this process. Ultimately, the governments of the euro area need to share much more sovereignty over their economic, fiscal and financial market policies with the European level.

RESULT OF FINAL VOTE IN COMMITTEE

Date adopted	22.10.2012
Result of final vote	+: 20 -: 13 0: 12
Members present for the final vote	Burkhard Balz, Elena Băsescu, Sharon Bowles, Leonardo Domenici, Derk Jan Eppink, Diogo Feio, Markus Ferber, Elisa Ferreira, Ildikó Gáll-Pelcz, Sven Giegold, Sylvie Goulard, Liem Hoang Ngoc, Syed Kamall, Wolf Klinz, Jürgen Klute, Rodi Kratsa-Tsagaropoulou, Philippe Lamberts, Werner Langen, Astrid Lulling, Hans-Peter Martin, Ivari Padar, Alfredo Pallone, Anni Podimata, Olle Schmidt, Edward Scicluna, Peter Simon, Theodor Dumitru Stolojan, Kay Swinburne, Sampo Terho, Marianne Thyssen, Corien Wortmann-Kool, Pablo Zalba Bidegain
Substitute(s) present for the final vote	Jean-Pierre Audy, Pervenche Berès, Saïd El Khadraoui, Sari Essayah, Robert Goebbels, Roberto Gualtieri, Danuta Maria Hübner, Sophia in 't Veld, Olle Ludvigsson, Thomas Mann, Sirpa Pietikäinen, Gianni Pittella, Nils Torvalds
Substitute(s) under Rule 187(2) present for the final vote	Julie Girling, Charles Goerens, Erminia Mazzoni