European Parliament
2019-2024

Plenary sitting

A9-0289/2023

11.10.2023

REPORT

on the Council recommendation on the appointment of a Member of the Executive Board of the European Central Bank
(N9-0054/2023 – C9-0346/2023 – 2023/0810(NLE))

Committee on Economic and Monetary Affairs

Rapporteur: Irene Tinagli

PR_NLE_MembersECB

CONTENTS

Page

PROPOSAL FOR A EUROPEAN PARLIAMENT DECISION

on the Council recommendation on the appointment of a Member of the Executive Board of the European Central Bank
(N9-0054/2023 – C9-0346/2023 – 2023/0810(NLE))

(Consultation)

The European Parliament,

– having regard to the Council's recommendation of 19 September 2023 (N9-0054/2023)[1],

– having regard to Article 283(2), second subparagraph, of the Treaty on the Functioning of the European Union, pursuant to which the European Council consulted Parliament (C9-0346/2023),

– having regard to its resolution of 14 March 2019 on gender balance in EU economic and monetary affairs nominations[2],

– having regard to its resolution of 16 January 2020 on institutions and bodies of the Economic and Monetary Union: preventing post-public employment conflicts of interest[3],

– having regard to Rule 130 of its Rules of Procedure,

– having regard to the report of the Committee on Economic and Monetary Affairs (A9-0289/2023),

A. whereas, by letter of 25 September 2023, the European Council consulted Parliament on the appointment of Piero Cipollone as a Member of the Executive Board of the European Central Bank for a term of office of eight years, with effect from 1 November 2023;

B. whereas Parliament's Committee on Economic and Monetary Affairs then proceeded to evaluate Piero Cipollone's credentials, in particular in view of the requirements laid down in Article 283(2) of the Treaty on the Functioning of the European Union and in the light of the need for full independence of the ECB pursuant to Article 130 of that Treaty; whereas in carrying out that evaluation, the committee received a curriculum vitae from Piero Cipollone as well as the replies to the written questionnaire that he had been sent;

C. whereas the committee subsequently held a hearing with Piero Cipollone on 9 October 2023, at which he made an opening statement and then answered questions put by the members of the committee;

---

[1] OJ C 334, 22.9.2023, p. 1.
[2] OJ C 23, 21.1.2021, p. 105.
[3] OJ C 270, 7.7.2021, p. 113.

D. whereas the Governing Council of the European Central Bank comprises the Members of the Executive Board of the European Central Bank and the 20 governors of the national central banks of the Member States whose currency is the euro; whereas, currently, all of the latter are men;

E. whereas women continue to be underrepresented in the Governing Council of the European Central Bank; whereas Parliament calls for the national and EU institutions to work actively towards achieving gender balance in the next nominations;

F. whereas all EU and national institutions and bodies should implement concrete measures to ensure gender balance;

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

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

ANNEX 1: CURRICULUM VITÆ OF PIERO CIPOLLONE

Piero Cipollone

CONTACT

Banca d'Italia
Via Nazionale 91 — 00184, Roma, Italy
e-mail: piero.cipollone @bancaditalia.it

Born in Avezzano (AQ) Italy on 3 January 1962

ACADEMIC QUALIFICATIONS

2001	Visiting scholar, Economics Department, University of California at Berkeley
1992	Master of Arts in Economics, Stanford University
1982	Degree with honours in Economics (University of Rome "La Sapienza")

HONOURS

Knight of the Order of Merit of the Italian Republic

PROFESSIONAL EXPERIENCE AND MAIN POSITIONS HELD

Current:

Deputy Governor of the Bank of Italy (since January 2020)

Member of the Board of the Italian Insurance Supervisory Authority (Ivass) (since January 2020)

Member of the OECD Working Party No. 3. (since January 2022)

Member of the Cross Border Payment Coordination Group Bank for International Settlements. (since 2021)

Member of the High Level Task Force on a Digital Euro (ECB) (since January 2020)

Member of the High Level Task Force on Integrated Financial Reporting IReF (ECB) (since 2022)

Member of the Economic and Financial Committee (EU) (since 2020)

Member of the High Level Task Force on Eurosystem Collaboration (ECB, concluded)

My primary areas of focus are: payment systems (infrastructure and methods), monetary policy implementation, financial stability, Italian and euro area economic development, banknotes production and distribution, IT, statistics, planning and control, relationships with multilateral development banks and IMF.

Previous positions

2018 (August)-2020	**Economic advisor to the Prime Minister.** I assisted the P.M. in negotiations with the EC, actively working on the economic dossier for G7, G20 and Financial Stability Board. Fostered institutional dialogue between the Government and the Bank of Italy and banking and business associations.
2017-2018 (July)	**Deputy Head of the Directorate General for Currency Circulation and Accounting.** I coordinated the action plan for the "strengthening of management control through the development of analysis tools and rationalization initiatives" included in the 2017-2019 Strategic Plan of the Bank of Italy. In relation to this, I presided over the introduction of multi-period budgeting in the Bank and of systems for cost forecasting and for computing the unit costs of the Bank's outputs and activities. Member of the Budget Committee BUCOM (ECB)
2015-2016	**Head of Planning and Controls Directorate.** I scaled up the Directorate's activities by augmenting its traditional administrative role centred on expense reporting and compliance controls with a sharper focus on analysing and forecasting costs; designed and implemented a new risk-based control system aimed mainly at organizational learning. I introduced new tools for analysing and controlling travel costs and related allowances, as well as for managing staff transfers to the Bank's branches by standardizing and outsourcing the service thereby increasing transparency and reducing costs. Member of the Budget Committee BUCOM (ECB)
2011 – 2014	**Executive Director on the Board of the World Bank Group (IBRD, IDA, IFC, MIGA).** I represented the constituency of Albania, Greece, Italy, Malta, Portugal, San Marino, Timor-Leste. As such, I fostered dialogue between the constituency's governments and WBG senior management; facilitated WBG re-engagement with Greece by providing technical assistance to complement the IMF Program. I supported San Marino's fervent involvement with the World Bank, leading to its joining of the International Centre for Settlement of Investment Disputes (ICSID), among other achievements; and worked with Malta and San Marino on joining the Doing Business project. I worked with Italian authorities on clearing the sizable arrears in contributions with the International Development Association (IDA, the concessional loan window of the World Bank). I also provided strategic guidance to management on the new WBG strategy and major reorganization; approved loans and policies; focused on private sector policies in developed and emerging markets, including on the role of the International Financial Corporation (IFC). I

supported management efforts in the last two very successful IDA replenishments (over USD 50 billion).

Chair of Audit Committee of the World Bank Group (IBRD, IDA, IFC, MIGA). I chaired the approval of financial statements, internal audit reports and led the dialogue with external auditors and oversight units (Internal Audit, Integrity Unit, Internal Evaluation Group, Chief Risk Officer, Independent Advisor Board). I guided an extensive review of the World Bank's sanction system. I sat on the selection committee for the Auditor General and oversaw approval of the new equity management strategy for the WBG, the first in a decade. I also presided over the sweeping changes in the pricing of the World Bank's financial instruments over the last decade and led discussions on improving the WBG's capital adequacy and financial sustainability. I advocated a development-driven capital allocation among World Bank Group entities.

Other duties: Member of the Pension Fund Committee in which I provided guidance on defining the new strategic asset allocation; I was co-dean of the Board, steered the double evaluation exercise (board evaluation of the WBG president and vice-versa).

2007 – 2010 **President of Invalsi (Italian Institute for the Evaluation of the Educational System).** In 2006 the Minister of Education (Mr. Giuseppe Fioroni) of the newly elected Government (P.M. Romano Prodi) requested the Bank of Italy's institutional support for a turn-around of the Italian school evaluation system and the re-launch of Invalsi. The Governor of the Bank of Italy at that time (Prof. Mario Draghi) asked me to take on this task. My duties first as special commissioner, then as president included: (i) designing and implementing a full-scale, comprehensive school evaluation system in Italy; (ii) organizing and instituting a universal system for testing pupils' achievements (about 2 million students per year); (iii) coordinating a large-scale training campaign on the OECD-PISA (Programme for International Student Assessment) survey for secondary school teachers; (iv) defining the legal framework for the dissemination of pupils' achievement scores among scholars and practitioners; (v) designing the methodology for evaluating school principals (about 10,000); (vi) overseeing the regular IEA (TIMMS and PIRLS) and OECD-PISA surveys, developing a regional PISA survey and representing Italy on the OECD-PISA board and IEA General Assembly; (vii) teaming up with two Ministries on a broad range of issues, including the reform of the secondary schools and the development of new curricula for the elementary schools; (viii) spearheading communication efforts across all media (TV, radio, newspapers, magazines, direct contact) targeted at teachers, parents, students and trade unions representatives to advocate for the importance of school evaluation for improving the quality of educational services.

Other related activities. I was a member of the advisory team for the Minister of Finance (Mr. Tommaso Padoa Schioppa) on the first comprehensive spending review of Italian public expenditure, with special responsibility for educational expenditures. With Fabrizio Barca and Aline Pennisi, I wrote the first Italian White Book on education, which set the stage for most of the subsequent reforms of the Italian school system.

2003 –2007	**Bank of Italy, Research Department, Head of the Labour Market Unit**. I shifted the emphasis of the unit from short-term macro analysis toward a long-run structural analysis of the Italian labour market. I fostered the use of micro-data (Bank of Italy SHIW, INPS individual earnings) to study households' labour supply behaviour and investment in human capital, and their impact on total factor productivity and introduced the use of OECD-PISA data in the Bank. I led the Unit to adopt new econometric techniques for evaluating Labour Market Programmes using new data sources (for example, Federmeccanica firm-level data). I was in charge of producing the labour market chapters for the Bank of Italy's major economic publications (the *Economic Bulletin* and the *Annual Report*). I contributed to the development of the Bank's first micro-simulation model and represented the Bank in ECB, OECD, EU, ISTAT, ISAE, ISFOL working groups and joint task forces. I also presented academic papers at major national and international conferences (in Italy, Europe and the US).
1998 –2001	**Bank of Italy, Research Department, Researcher in the Labour Market Unit**. As a researcher, I conducted regular analysis of the Italian and European labour markets, focusing on wage-setting mechanisms, wage-costs inflation transmission channels, as well as industrial relations. I contributed as author to the Bank of Italy's major economic publications and published several academic papers.
1995 – 1997	**Bank of Italy, Research Department, Researcher in the Balance of Payments Unit**. I analysed Italian export patterns in the aftermath of the 1992-93 major devaluation of the Italian lira. I studied the changes in the comparative advantage of Italian exports in light of growing competition from the emerging economies in the traditional sectors of the economy.
1992 – 1994	**Ministry of Foreign Trade, Senior advisor to the Minister of Foreign Trade, Chief of the technical staff**. I chaired the committee of economic advisors to the Minister and developed and directed a small technical unit conducting analyses on the internationalization of Italian firms.

OTHER POSITIONS

2015-2017	Chairman of the Executive Board of CEIS-Sviluppo (University of Tor Vergata, Rome)
2015	Member of the Selection Committee for membership in Anvur (Italian Institute for Evaluation of Universities and Research Institutes)
2015	Member of the Award Committee for the Premio Montalcini (a special prize named after Nobel Prize winner Rita Levi Montalcini and awarded to young professors and researchers)
2014	Chairman of the Selection Committee for Invalsi's Director General
2012-2015	Member of the Scientific Committee of the Ca' Foscari International College (University of Venice)

2012	Chairman of the Selection Committee for Invalsi's President

TEACHING EXPERIENCE

1993 – 2001	LUISS University, Rome: Monetary Policy
1992 – 1994	University of L'Aquila: Labour Economics
1988 – 1991	Stanford University, School of Education, teaching assistant: Labour Economics

REFEREE FOR ACCADEMIC JOURNALS

- *Banca d'Italia Temi di discussione*
- *B.E. Journal of Economic Analysis & Policies*
- *Fiscal Studies*
- *Journal of Banking and Finance*
- *Journal of European Economic Association*
- *Journal of Population Economics*
- *Labour*
- *Labour Economic*
- *Politica Economica*
- *Rivista Italiana degli Economisti*

SPEECHES

- **The future of payments and how to get there**
  Conference "Global payments week 2023: the future of payments"
  World Bank, Marrakech, 18 May 2023
  (https://www.bancaditalia.it/pubblicazioni/interventi-direttorio/int-dir-2023/Cipollone_Global_Payments_Week_18052023.pdf)

- **Towards PSD3: the Dynamics of Digitalized Payment Systems**
  International Conference Roma Tre University
  Rome, 14th April 2023
  (https://www.bancaditalia.it/pubblicazioni/interventi-direttorio/int-dir-2023/Cipollone_14042023.pdf)

- **The implementation of CBDCs by central banks: challenges, risks and opportunities**
  Conference "Central Bank Digital Currencies: Threat or Opportunity?"
  London School of Economics, October 28th, 2022
  (https://www.bancaditalia.it/pubblicazioni/interventi-direttorio/int-dir-

2022/cipollone_281022.pdf)

- **The experience of 10 years of data in Central Banking**
  International Conference "Future of Central Banking"
  Vilnius, Lithuania, 29 September 2022
  (https://www.bancaditalia.it/pubblicazioni/interventi-direttorio/int-dir-2022/Cipollone_future_of_central_banking_29_settembre_2022_Vilnius.pdf)

- **Unidroit. Conference on Digital Platforms and Global Law**
  Key Note speech
  Villa Aldobrandini, Roma, 29 April 2022
  (https://www.bancaditalia.it/pubblicazioni/interventi-direttorio/int-dir-2022/CIPOLLONE_29_aprile_2022.pdf)

- **The Role of Central Banks for Green Finance**
  University of Florence, 11-12 March 2022
  (https://www.bancaditalia.it/pubblicazioni/interventi-direttorio/int-dir-2022/Cipollone-2022.03.11.pdf)

- **TIPS (TARGET Instant Payment Settlement) - the new Eurosystem market infrastructure service**.
  Rome, Bank of Italy
  12-13 July 2021
  (https://www.bancaditalia.it/pubblicazioni/interventi-direttorio/int-dir-2021/CIPOLLONE-12-13-luglio-2021.pdf)

- **Long-term investors' trends: theory and practice.**
  LTI Workshop, Rome, 8 April 2021
  (https://www.bancaditalia.it/pubblicazioni/interventi-direttorio/int-dir-2021/2021.04.08-Cipollone.pdf)

- **The Italian G20 presidency and the cross-border payments agenda**
  BIS - Committee on Payments and Market Infrastructures Conference
  19 March 2021
  (https://www.bancaditalia.it/pubblicazioni/interventi-direttorio/int-dir-2021/2021.03.19-Cipollone.pdf)

SEMINAR, CONFERENCES AND MEMBERSHIPS

Presented seminars on economics at the following institutions: UC Berkeley, BANFF, European Economic Association, European Labour Economic Association, London School of Economics, ECB, IZA, Università Bocconi, Sapienza University, Tor Vergata University, LUISS University, Università Cattolica di Milano, Bank for International Settlements, Padua University, Italian Ministry of Economy and Finance, World Bank, Collegio Caro Alberto Moncalieri, Turin Politecnico, Milan Politecnico.

Member of the European Economic Association, European Labour Economics Association, Italian Economic Association, Italian Labour Economics Association.

MAIN PUBLICATIONS

(2007) "Social Interactions in High School: Lessons From an Earthquake" (with A. Rosolia), *American Economic Review*, Vol. 97, No. 3

(2006) "Does the ILO Definition Capture All Unemployment?" (with A. Brandolini and Eliana Viviano), *Journal of European Economic Association,* Vol. 4, Issue 1, March

(2001) "Bottlenecks, limits to growth and inflationary pressure: a multisectoral analysis of Italian industry" (with D. J. Marchetti), *Journal of Policy Modelling* no. 23

(2012) "Human Capital for growth: possible steps towards an upgrade of the Italian education system" (with Pasqualino Montanaro and Paolo Sestito), Banca d'Italia, *Questioni di economia e finanza* (Occasional Papers) no. 122

(2010) "Schooling and Youth Mortality: learning from Mass Military Exemption" (with A. Rosolia), Banca d'Italia, *Temi di Discussione* no. 811

(2010) "Value-added measures in Italian High Schools: Problems and Findings" (with P. Montanaro and P. Sestito), *Giornale degli Economisti e Annali di Economia* Vol. 69 (2) July

(2007) "Labour Market for Teachers: Demographic Characteristics and allocative Mechanisms" (with G. Barbieri and P. Sestito), *Giornale degli Economisti e Annali di Economia* Vol. 66 (3) November

(2007) "Determinants and Costs of University Withdrawal. The case of Italy" (with F. Cingano), Banca d'Italia, *Temi di Discussione* no. 626

(2007) "Employment Growth in Italy in the 1990s: Institutional Arrangements and Market Forces" (with A. Brandolini, P. Casadio, M. Magnani, A. Rosolia, R. Torrini), AIEL Series in Labour Economics, in N. Acocella and R. Leoni (ed.), *Social Pacts, Employment and Growth: A Reappraisal of Ezio Tarantelli's Thought*; Chap. 4, pages 31-68, AIEL - Associazione Italiana Economisti del Lavoro

(2006) "The Value of Flexible Contracts: evidence from a panel of industrial firms" (with A. Guelfi), Banca d'Italia, *Temi di Discussione* no. 583

(2006) "Financial Support to Permanent Jobs: the Italian Case" (with A. Guelfi), *Politica Economica*. a.XXII, no. 1, April 2006

(2004) "Human Capital, Growth and Employment. The case of Italian regions" (with A. Ciccone and F. Cingano), *Giornale degli Economisti e Annali di Economia*, Year 117, Vol. 63, No. 3/4, December

(2004) "Hiring Incentives and Labour Force Participation" (with C. Di Maria and A. Guelfi), *Giornale degli Economisti e Annali di Economia*, Year 117, Vol. 63, No. 2, November

(2003) "Tax Credit Policy and Firms' Behavior: the Case of Subsidies to Open-End-Contract", (with A. Guelfi). Banca d'Italia, *Temi di Discussione* no. 471

(2003) "Urban Poverty in Developed Countries" (with A. Brandolini). *Inequality, Welfare and Poverty: Theory and Measurements*, Vol. 9, Elsevier

(2002) "Earnings Dispersion, Low pay and Household Poverty in Italy, 1977-1998" (with A. Brandolini and Paolo Sestito), *The New Economics of Rising Inequalities* (Ed.) D. Cohen, T. Piketty and G. Saint-Paul, Oxford University Press

(2001) "Multifactor Productivity and Labour Quality in Italy, 1981-2000" (with A. Brandolini), Banca d'Italia, *Temi di Discussione* no. 422

(2001) "Is the Italian Labour Market Segmented?", Banca d'Italia, *Temi di Discussione* no. 400

(1999) "Determinants of Pay in the Italian Labor Market: Jobs and Workers" (with Paola Casavola and Paolo Sestito), in *The Creation and Analysis of Employer-Employee Matched Data* (ed.) John Haltiwanger, Julia Lane and Kenneth Troske, North Holland, Amsterdam

(1995) "Education and Earnings", in *International Encyclopaedia of Economics of Education*, M. Carnoy (ed.), Pergamon Press, Oxford

<u>Other Publications (in Italian)</u>

(2013) "Uno sguardo oltre il 2015: in vista dei nuovi obiettivi del Millennium per l'istruzione", *Scuola Democratica* no. 2 2013

(2012) "Il sistema nazionale di valutazione come strumento di supporto per la qualita" (with Donatella Poliandri) *Economia&Lavoro*, Year XLVI no. 1 January-April 2012

(2010) *Il capitale Umano*, Il Mulino, Bologna

(2008) "Il merito basato sull'istruzione: un commento a Goldthorpe e Jackon", *Stato e Mercato*, no. 1 April

(2007) "I poveri in istruzione" (with G. Barbieri), in *Povertà e Benessere*, A. Brandolini and C. Saraceno (ed.), Il Mulino, Bologna

(2007) *Il merito nella società della conoscenza* (with I.Visco), 1/2007, Il Mulino, Bologna

(2005) "Le condizioni di lavoro degli immigrati in Italia" (with A. Brandolini and A. Rosolia), in "*L'incidenza economica dell'immigrazione*, Massimo Livi Bacci (ed.), Giappichelli Editore, Torino

(2003) "Una Nuova Economia in Italia? Prime controevidenze con dati aggregati" (with

A.Brandolini), in *La Nuova Economia: il mito, i fatti*, S. Rossi (ed.), Il Mulino, Bologna

(2001) "La convergenza dei salari manifatturieri in Europa", *Politica Economica,* no. 1, April, pp. 101-129

(2000) "L'internazionalizzazione delle imprese manifatturiere italiane" (with M. Bugamelli and L. Infante), *Rivista Italiana degli Economisti*, no. 3

(1999) "Caratteristiche delle imprese e caratteristiche dei lavoratori: da cosa dipendono i salari in Italia?" (with P. Casavola and P. Sestito), *Economia e Lavoro*, Year XXXIII, no. 3-4

(1999) "I vantaggi comparati dell'Italia. Gli effetti sull'occupazione", *Rivista di Politica Economica*, Year LXXXIX -Serie III, June

(1999) "Globalizzazione e mercato del lavoro: il caso italiano" (with Paolo Sestito), in *Globalizzazione e Stato Sociale*, Nicola Acocella (ed.), Il Mulino, Bologna

(1998) "Strozzature Settoriali, Limiti alla Crescita e Pressioni Inflazionistiche" (with D. J. Marchetti), Rivista Italiana degli Economisti, no. 1, April

(1997) "Prezzi dei Manufatti Importati e Prezzi dell'Output: il Caso dell'Italia" (with R. Sabbatini), *Moneta e Credito*, Vol. L , no. 199, September

(1996) "Esportazioni e margini di profitto delle imprese manifatturiere italiane nel 1993-94", in *Rapporto sul Commercio Estero ICE 1995*

(1995) "Un quadro di coerenza per valutare la sostenibilità macroeconomica della spesa per il sistema pensionistico pubblico", in *Profili di documentazione sul sistema pensionistico*, G. Faustini (ed.), Senato della Repubblica Italiana 1995

(1987) "La disoccupazione Regionale in Italia 1980-1985"; *Rapporto CNEL 1987*

ANNEX 2: ANSWERS BY PIERO CIPOLLONE TO THE QUESTIONNAIRE

Questionnaire to the candidate for the position of
Executive Board Member of the European Central Bank

A. Personal and professional background

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

I have spent most of my career as a central banker, from joining the Bank of Italy in 1993 as an economist to being appointed Deputy Governor in 2020. Throughout this journey, I have gained extensive experience in various aspects of central banking.

My professional trajectory is rooted in my academic background as an economist, which I acquired through rigorous training at esteemed institutions such as Università La Sapienza, Stanford University, and UC Berkeley. My academic focus, which I have carried into my professional career, has centred on the labour market, trade, and international economics. In my roles as senior advisor to the Ministry of Foreign Trade and research economist at the Bank of Italy, I have gained insights into how globalisation has been affecting the Italian and European economies. This is connected to my studies on the structural conditions of the labour market and the role of human capital in the economic development of Italy and Europe. I have conducted extensive analysis on wage convergence, wage determinants, wage-setting mechanisms, and the transmission of wages to inflation within the euro area. Some of my research findings have been presented at international conferences and published in prestigious academic journals, including the American Economic Review and the Journal of the European Economic Association. I have also been the lead contributor to the labour market chapters in the Bank of Italy's major economic publications. I also shared my expertise on labour markets and their relevance for inflation and monetary policy during my eight-year teaching on monetary policy at LUISS University in Rome.

Throughout my career, I have demonstrated a strong commitment to policy evaluation and innovation. I dedicated three years to spearheading a comprehensive overhaul of the Italian school evaluation system, a task entrusted to me by the Italian government and the then-Governor of the Bank of Italy, Professor Mario Draghi. As the Head of the Section on Labour Markets in the Bank of Italy's research department, I led efforts to innovate data and model analysis. This included advocating for increased use of micro-data, contributing to the development of the Bank's first micro-simulation model, and introducing novel econometric techniques for evaluating labour market programmes. I firmly believe in the importance of regularly assessing data, models and strategies to ensure their suitability, and I am committed to bringing this mindset and dedication to robust, data-driven analysis to the ECB.

Another significant facet of my career, particularly in recent years, has revolved around payments and payment systems, with a focus on modernising them for the digital age. As the

Deputy Governor of the Bank of Italy, I oversee the work on retail and wholesale Central Bank Digital Currencies (CBDCs), stablecoins, tokenized deposits, and instant payments. For example, I have been involved in the process to upgrade TIPS (the Eurosystem market infrastructure for the settlement of instant payments in central bank money) from operational, resilience, and financial standpoints. I have also pro-actively engaged in the debate about a new PSD3 (Payment Services Directive 3) and its alignment with the latest technological developments, including smart contracts and decentralised finance (DeFi), to benefit citizens. Furthermore, I have personally contributed to the digital euro project in my capacity as member of the Eurosystem's High-Level Task Force on a digital euro and particularly concerned myself with questions of financial stability, digital inclusion and international coordination. The latter is also a focus of my work in committees and working groups at the Bank for International Settlements (BIS), where I have emphasized the importance of improving cross-border and cross-currency payments.

In my professional roles I have closely engaged with European and international counterparts. As an Executive Director at the World Bank, I facilitated dialogue between various European governments and the World Bank Group's Senior Management. In 2019, I was responsible for institutional relations at the Bank of Italy and between 2018 and 2020, I advised the Italian Prime Minister on the economic dossiers for the G7 and G20. This experience included direct involvement in the negotiations for Next Generation EU, where I witnessed the significance of European policymakers uniting to address a common crisis. Currently, as a member of the Economic and Financial Committee, I also participate in economic policy discussions within the EU. My recent work on payment systems has involved close cooperation with other central banks, regulators and market participants, offering me valuable insights into managing projects with diverse stakeholders.

Finally, I want to emphasize my managerial skills, honed over decades. I have experience in crafting and executing strategies and have learned how to cultivate a culture of excellence, integrity, collaboration and inclusivity (see my answer to question n. 48). In my capacity as Deputy Governor, I have actively championed and overseen the execution of action plans aimed at enhancing the institution's operational efficiency. Notably, this has involved pioneering innovative tools to facilitate multi-period budgeting within the Bank and the development of advanced systems for cost forecasting.

Taken together, my academic background, research, and professional experience in economics, central banking, and financial markets have given me a deep understanding of the complex societal, economic and financial forces that drive inflation and economic growth. This understanding is essential for making sound monetary policy decisions.

I would be honoured to bring this experience to the ECB, should I be appointed as Member of the Executive Board.

2. *Do you have any business or financial holdings or any other commitments, which might conflict 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.

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

As a member of the ECB's Executive Board, I would be unwaveringly committed to serving Europe by ensuring that the ECB effectively delivers on its mandate. First and foremost, by fulfilling its primary objective of maintaining price stability. This is of the utmost importance, as it not only sustains confidence in our shared currency but also underpins sustainable growth, job creation, economic well-being and the cohesion of our society. Yet fulfilling this primary objective is not enough to deliver on the ECB's mandate: the ECB should, without prejudice to maintaining price stability, support the general economic policies of the Union.

Additionally, a key priority for me as an ECB Executive Board member would be to nurture and strengthen the ECB's relationships with European and international stakeholders. Throughout my career, I have personally witnessed the immense value that robust relationships and cooperation bring to sound policymaking. I firmly believe that this is vital for the effectiveness of monetary policy, the preservation of financial stability, and the advancement of innovative payment methods and systems.

Lastly, I am firmly committed to the principle of inclusivity. I believe that the ECB should continue to progress in fostering the diversity of its staff and creating a working environment where every voice is encouraged to be heard and every perspective is welcomed. This inclusivity extends not only within the organisation but also outside, by engaging with the citizens we are entrusted to serve and the institutions that represent them, in particular the European Parliament. I am convinced of the significance of actively listening to and considering the views of citizens and their representatives, whether it pertains to concerns about inflation's impact, rising mortgage costs, apprehensions regarding privacy with a digital euro, or worries over a scarcity of ATMs. I also believe in engaging actively with all stakeholders that are impacted by the ECB's decisions. My diverse professional experiences have taught me that fostering trust and navigating uncertain times hinge on these principles of inclusivity and responsiveness.

B. ECB monetary policy

4. *In your view, how should the ECB conduct its monetary policy in the current macroeconomic conditions? How do you see persistently high core inflation? Do you believe inflation expectations have a significant impact on inflation outcomes and how should they be taken into account when designing monetary policy? In your view, what should the ECB do to bring them under control?*

After a period of prolonged subdued inflation, the ECB - and more broadly central banks worldwide - faced an unprecedented sequence of shocks that led to a surge of inflation. Both the size and nature of the shocks the ECB was confronted with also resulted in considerable uncertainty in terms of the strength and persistence of inflationary pressures. Faced with these shocks, the ECB responded in a determined manner: it raised ECB interest rates faster than any time before. It is also reducing the size of its balance sheet, as the principal payments from maturing securities under the Asset Purchase Programme (APP) are no longer reinvested and the amounts borrowed by banks under the targeted longer-term refinancing operations are repaid.

Looking at inflation dynamics, headline inflation has declined since its peak last October, mainly owing to lower energy prices and more recently also to lower food inflation and core inflation (i.e. inflation excluding energy and food). There are also increasing signs that underlying inflation is moving beyond its peak, reflecting both supply and demand-side factors. But both headline and core inflation remain at high levels.

Euro area annual inflation was 4.3% in September, down from 5.2% in August according to a flash estimate from Eurostat on 29 September. According to the same estimates, euro-area core inflation eased to its slowest pace in a year: to 4.5% in September, down from 5.3% in August.

Looking ahead, core inflation is expected to moderate progressively as the impact from the inflation shocks fades and the effects of tighter monetary policy materialise. As a result, the latest projections published by the ECB for core inflation were slightly revised down to 5.1% in 2023, 2.9% in 2024 and 2.2% in 2025. Particular attention should be paid to service inflation, given the prominent role of services in the consumption basket and the higher exposure of services to the rising costs of labour.

Inflation expectations play an important role for inflation outcomes since expected future price developments have an effect on consumption and investment decisions today. Long-term inflation expectations also provide a measure of the credibility of monetary policy.

I thus believe it to be particularly important to assess and monitor the anchoring of long-term inflation expectations using a range of methods and expectations measures. The available evidence, further supported by comprehensive analyses released by the Bank of Italy, indicates that long-term inflation expectations in the euro area have rapidly returned to levels close to the 2% symmetric inflation target. The rapid and strong monetary policy reaction has contained the risks of an upward de-anchoring of inflation expectations.

Looking more in detail at the recent data, most measures of longer-term inflation expectations stand at around 2% but the impact of the short-term inflation spike on wage and price-setting dynamics need to be closely monitored. Recent survey data show that the profile of inflation expectations is downward sloping, with relatively little movement in the longer term, despite historically high short-term expectations. Market-based inflation expectations are elevated, although in my view this largely reflects higher risk premia in the context of the possibility that negative supply shocks may more frequently impact the euro area economy going forward.

Together, survey and market-based data suggest that inflation expectations remain anchored, also owing to the determined action the ECB has taken to revert inflation to its target over the medium term. Nevertheless, inflation expectations continue to warrant continuous monitoring, given the high inflation of the last year and a half and the risk of second-round effects.

5. *How do you see the ECB's performance regarding the achievement of its primary objective of maintaining price stability? Would earlier tightening have prevented some of the price rises, in view of the experience of other central banks who raised rates earlier? How do you evaluate the current understanding of inflation dynamics and the main factors driving inflation movements in recent years? Do you consider wage growth pressure as a threat to the ECB's efforts to bring inflation to 2% over medium term?*

As noted in the previous answer, the series of major and unexpected supply shocks hitting the euro area economy in recent years has been a challenge. Once the longer-lasting nature of too high inflation became evident, the ECB's monetary policy responded in a determined manner.

The ECB began normalising its policy from December 2021 and has raised interest rates faster than at any time before. It also ended net asset purchases under the pandemic emergency purchase programme (PEPP) and the asset purchase programme (APP) and from March 2023 onwards, started to reduce the APP portfolio at a measured and predictable pace. As of July 2023, reinvestments under the APP have been fully discontinued. The repayments by banks of the amounts borrowed under the targeted longer-term refinancing operations are also contributing to a significant reduction in the size of the ECB's balance sheet.

Inflation is coming down, but it is still projected to remain slightly above the ECB's target in 2025 and uncertainty remains high. Core inflation has proven persistent as pipeline pressures from higher input costs continued to pass through to service and non-energy industrial goods, but it has recently started to decline. While food prices are declining, they remain at high levels. However, both recent developments and the future prospects for core inflation have improved. The items with more persistent dynamics, which have contributed to the bulk of core inflation until the beginning of 2023, have recently started to disinflate. More recently, some upward pressures on core inflation have been exerted by the less persistent items, whose effect should then fade away relatively fast.

Wage growth has been picking up and is expected to become an increasingly important source of inflationary pressures. Wage growth reflects the demand for inflation compensation, tight labour markets and increases in minimum wages. While risks of a stronger pass-through of high inflation to wages cannot be ruled out, there is no evident sign of a self-sustained wage-price spiral emerging. The latest ECB staff projections foresee employee wage growth reaching 5.3% in 2023, but declining in 2024 and 2025. Furthermore, labour productivity is expected to recover from its current low level; this, in turn, is expected to help alleviate the impact of wage growth on the dynamics of both unit labour costs and prices. Inflationary risks potentially stemming from high wage growth must, however, continue to be monitored carefully. As noted in my answer to question no. 4, anchored longer-term inflation expectations and the credibility of determined ECB action provide a backstop against the emergence of a self-sustained wage-price spiral, in the absence of any significant unforeseen shocks.

Based on the above assessment, I concur with the Governing Council's assessment that the ECB's policy rates have reached levels that, maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to its target. I also very much welcome the emphasis given to the data dependent approach, i.e. that future Governing Council decisions should be based on the assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation and the strength of monetary policy transmission.

6. *How could inflation differentials affect the conduct of monetary policy? How do you assess the medium term inflation prospects in this context?*

Inflation dispersion was very high by historical standards when the energy shock first hit the euro area economy. Cross-country inflation differentials rose from historically low levels in the pre-pandemic period to historical highs at the end of 2022. The variation in inflation rates within the euro area can be attributed in part to the degree of dependency on energy imports and energy consumption intensity. Energy subcategories, such as fuels, natural gas, and electricity, can exhibit divergent trends, primarily due to disparities in the energy sources used. Moreover, the specifics of household utility contracts, regulatory frameworks and potential government interventions aimed at mitigating high energy costs further contribute to these differences. Consequently, the energy crisis had varying impacts on different Member States, and these differentiated impacts also contributed to varying levels of food price inflation. At the same time, the dispersion has moderated substantially with the overall decline in inflation.

When discussing inflation differentials, it is crucial to note that the ECB's monetary policy focuses on inflation developments in the eurozone as a whole, meaning that inflation differentials are not inherently a concern in a monetary union if they remain of a limited nature. In fact, they can be considered normal to the extent that they reflect temporary adjustments to shocks or are associated with catch-up processes. However, large and persistent discrepancies in inflation dynamics can impede the proper transmission of monetary policy across jurisdictions. This is particularly true when discussing differentials that show lasting characteristics or do not mirror price level convergence. Such differentials could signal disparities in cost trends or structural inefficiencies and, if prolonged, could result in extended declines in price competitiveness and a worsening current account balance.

It is therefore important to closely monitor inflation differentials. However, monetary policy has limited levers for addressing cross-country divergences and inflation differentials.

Despite its surge to a very high level by historical standards when the energy shock first hit the euro area economy, inflation dispersion did not undermine the effectiveness of monetary policy.

The latest ECB staff macroeconomic projections for the euro area from September 2023 show that inflation is expected to continue declining over the next couple of years as cost pressures ease and the ECB's monetary policy measures are gradually transmitted. At the same time, as noted in my answer to the previous question, inflation is slowing but is still expected to remain slightly above the ECB's target in 2025. These projections imply an upward revision of inflation for 2023 and 2024, mainly due to energy prices, and a downward revision for 2025. Most indicators of underlying inflation have started to ease, which is a welcome development, providing support to the ECB's staff recent projections, but underlying price pressures remain high overall.

7. *How do you see the ECB supporting the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union? Do you see merit in the ECB's drafting of its Annual Report to clearly elaborate the impact of its monetary policy on the general Union economic policies, also in view of its secondary objective?*

The primary objective of the ECB's monetary policy is to maintain price stability, as stated in Article 127 (1) of the Treaty on the Functioning of the European Union (TFEU). Monetary policy can affect the real economy in the short run. While poorly executed monetary policy can harm the long-term performance of the economy by generating excess volatility, long-run living standards ultimately depend on non-monetary determinants such as productivity.

Having said that, I welcome the fact that in the context of its 2021 strategy review, the ECB clearly underlined that, without prejudice to the primary objective of maintaining price stability, the Eurosystem shall support the general economic policies in the EU with a view to contributing to the achievement of the Union's objectives, as laid down in Article 3 of the Treaty on European Union. I believe this issue is even more important today, as we are going through a period of high uncertainty, marked by economic and geopolitical shocks and the long-lasting challenge of the green transition.

I thus believe that, without prejudice to its price stability objective, the ECB should choose the configuration of its monetary policy instruments that best supports the general economic policies in the European Union relating to growth, employment, and social inclusion, and that protects financial stability and helps to mitigate the impact of climate change.

I appreciate that, as noted by the ECB in its feedback on the input provided by the European Parliament as part of its resolution on the ECB's Annual Report 2021, the ECB's public communication already includes clear lines on how the Governing Council caters for other considerations relevant to the conduct of monetary policy in its monetary policy decisions. This also includes the ECB Annual Report that already integrates into its various chapters an explanation of how the Governing Council caters for such other considerations. I welcome that the ECB has further expressed its intention to seek to elaborate further on the link between these other considerations, its primary objective and its secondary objective, where relevant.

8. *More generally, how do you view the way monetary policy decisions have been made in the past and do you think it should be changed and, if so, how? How do you see the impact of the ECB's monetary policy on the most vulnerable groups? Is monetary policy tightening the correct response to supply side, one-off price shocks such as the 2022 energy price shock? What are the effects of higher interest rates on aggregate demand?*

The strategy review concluded in 2021 helped significantly in improving the way monetary policy decisions are taken at the ECB. The thorough review of the ECB's analytical framework, which is the foundation for its monetary policy decisions, has been particularly helpful. It provides an integrated framework that brings together economic analysis, monetary analysis and financial analysis, and that takes into account the links between the underlying structures, shocks, and adjustment processes. These analyses show that supply-side factors have indeed dominated the recent increase in inflation, but the pass-through of these factors and a non-negligible demand component required decisive monetary policy action to ensure that inflation returns to target over the medium term and that inflation expectations remain well-anchored.

Ensuring price stability over the medium term is and remains the best contribution that monetary policy can make to sustainable economic growth and job creation. I believe that it is important to have this firmly in mind when discussing the impact of the ECB's monetary policy on society, including on its most vulnerable groups. As regards Italy, for example, the Bank of Italy's staff have shown that over the 2021-22 period, the increase in inflation inequality is mainly due to the energy shock.

Inflationary shocks, such as those we have experienced, increase inequality. Because of the composition of their consumption basket, low-income households are more exposed to increases in the prices of energy and food, which have driven the inflation spike. Moreover, low-income households have less scope for moving to less expensive varieties or substituting across expenditure categories given the budgetary constraints they face in the first place.

While I fully understand that not only inflation, but also the higher interest rates needed to restore price stability involve costs for households and firms, higher interest rates were nonetheless needed to protect the poor and vulnerable from the harmful effects of inflation remaining high for long. Society benefits from price stability, and maintaining price stability is what the ECB is mandated and determined to achieve. If left unaddressed, high inflation would have greater costs in the medium- to long-term.

That being said, it is important to understand the implications for the transmission of the ECB's monetary policy of the distributional consequences that both a monetary policy tightening and policy loosening have. Since lower-income households, for example, spend a relatively higher share of their income, the distributional effects are relevant for the strength of the transmission of the ECB's monetary policy decisions to the real economy.

Net savers typically benefit from interest rate hikes, while net borrowers will experience an increase in their interest payments, except on loans previously contracted at fixed interest rates. Increases in mortgage rates affect a higher share of medium- and high-income households, as they are more likely to have a mortgage. Lower-income households are less affected directly, as they generally hold less debt. However, it is important to closely scrutinise the data, which show for instance, that the increase in interest payments on variable rate mortgages in 2022 affected the most this part of society, with an estimated reduction equivalent to 10% of gross annual income, reflecting its initially higher debt-to-income ratios. While individuals in the lowest income group are less likely to have variable rate mortgages (4% compared to 9% for all households in the euro area), the losses in their annual income are likely to significantly deplete their available liquid financial assets.

The importance of looking at the data to fully understand how policy measures are transmitted is also relevant when it comes to the labour market. As higher interest rates dampen aggregate demand, this typically weighs on job creation for the lower-skilled. To date, however, this has not been the case, with the labour market remaining resilient so far, including a record-low unemployment rate, also among low-income workers. In this respect, the results of analyses conducted by the Bank of Italy reveal that in Italy lower-income households benefited the most from the positive employment trends following the pandemic, and the resulting increase in nominal labour income helped mitigate the adverse effects of inflation on their purchasing power.

9. *How do you assess the quality and reliability of the ECB's modelling framework as regards forecasting inflation? Which improvements could be implemented in your view?*

In the last few years, the euro area economy has faced a series of major and unexpected consecutive shocks. These shocks are hard to anticipate in macroeconomic models. Shocks originating from outside of the economy, such as the Covid-19 pandemic and Russia's invasion of Ukraine, cannot feasibly be anticipated in macroeconomic models. Once the shocks had materialised, the forecasts incorporated this additional information, while ECB and Eurosystem staff have also adapted their models following more permanent changes to the macroeconomy.

I welcome that the ECB published analyses of its own forecasting errors, as this publicly underlined its efforts to continuously review the performance of its forecasts. These analyses show that the large projection errors which materialised were linked primarily to exceptional developments, with energy prices and supply bottlenecks playing a major role. Indeed, over the last two years, institutions and private sector forecasters also predicted that inflation would be lower than it turned out to be. The ECB was therefore not the only institution under-predicting inflation, with the shocks posing a broader challenge to forecasters . More recently, errors have declined, but some components of inflation, notably energy and food prices, remain difficult to predict due to their elevated volatility.

I do believe that economic models, while simplifying reality and drawing on past regularities to predict the future, continue to be essential tools for central banks, also for calibrating their policy decisions and assessing their effectiveness. Continuous efforts to improve the ECB's suite of models thus remain as important as ever, in particular to take structural changes into account.

The close cooperation that exists between ECB and national central bank staff in the preparation of these forecasts can be particularly beneficial, as it fosters the incorporation of expertise from many national experts and enables a discussion reflecting a range of opinions, both in the production of forecasts and for their continued development. This also shows that the expert judgement of staff that is part of any forecast and complements the output of macroeconomic models also remains a crucial element, allowing for additional evidence to be incorporated into forecasts. Due to the difficulties for forecasters more broadly speaking, a lively exchange with other forecasters and academia is vital too.

At the Bank of Italy, all models are subject to continuous checks and improvements. Our investigation of the forecasting errors in the last few years indicated that they were not so much due to flaws in the models used to represent the functioning of the economy, but to the quality of some of the assumptions, based on market prices, used as inputs. Indeed, 90% of the unexpected increase in Italian inflation reflected surprises occurring in international prices of commodities and manufactured goods.

At the same time, a degree of uncertainty surrounding point forecasts is unavoidable. ECB/Eurosystem forecasts have used sensitivity analyses and alternative scenarios to the baseline projection, for example during the pandemic, to reflect the high uncertainty. In a complex world, this approach adds a lot of value, as it captures some of the uncertainty and produces risk indicators.

10. *Differentiated interest rates have in the past been used as a tool of central banks, e.g. the Bundesbank and Banque de France selectively exempting export credits from tightening cycles. What is your position on differentiated interest rates narrowly geared towards investments in renewables?*

Changes in interest rates affect investment decisions for all projects and economic actors. Currently, higher interest rates may thus also have an impact on the cost of capital for energy and green investment projects. However, price stability is a key condition for continued long-term investments in green technologies - and uncertainty about future price stability can be expected to significantly hamper investment decisions, included those relating to green investment, which are driven by real long-term interest rates. The reason is that uncertainty about future inflation leads to increases in inflation risk premia and may thus lead to higher, and more volatile longer-term rates, with severe consequences for investment dynamics. For the time being, real long-term rates are still low by historical standards. The ECB’s measures to fight inflation, and to ensure the anchoring of longer-term inflation expectations has thus helped to contain long-term financing costs. Put simply: by creating a stable macroeconomic environment with inflation close to its target, monetary policy contributes to fostering the substantial investment needed for the green transition.

The possibility of differentiated interest rates to target green investments was one of several possible instruments to incorporate climate change considerations into the policy framework that were discussed in the ECB's strategy review, concluded in 2021. While it is anticipated that the ongoing regulatory changes will enhance data accessibility in the future, notable obstacles remain, particularly concerning data coverage and quality, along with verification processes and capabilities. This was the reason for not including them in the ECB's climate action plan. The ECB has already taken tangible actions, such as adjusting corporate bond holdings to integrate climate-related metrics, enhancing the consideration of climate risk in the collateral framework, and implementing climate-related disclosure requirements for collateral. The actions on the collateral framework that are linked to standardised and verified green-labels, such as those already envisaged for sustainability-linked bonds and the forthcoming entry into force of the EU Green Bond Standard, could incentivise investment in renewables and other projects enabling the climate transition, thus broadening the range of potential issuers of green securities to SMEs.

As I outline in question no. 20, I am convinced that the ECB should, however, remain fully dedicated to addressing climate change within its mandate, exploring all the options to support the green transition through its monetary policy, and I welcome the ECB's commitment to regularly reviewing its climate-related measures.

11. *How do you evaluate the effects of the on-going monetary policy tightening? What are your views on the transmission of monetary policy? What is your view on the heterogeneity of financing conditions across the euro area and its impact on the single monetary policy of the ECB?*

The interest rate increases decided by the ECB over the past few months have been transmitted forcefully to the euro area economy. Banks funding costs are rising and have been passed on to lending rates to non-financial corporations and households, which have increased sharply and reached their highest levels since 2008 and 2012 respectively. Compared with the previous tightening cycles, the current one has induced the largest increase in lending rates in the euro area, also reflecting the unprecedented hikes in policy rates in terms of both speed and magnitude.

Credit to the non-financial private sector weakened markedly, with a reduction in loan demand largely associated with the dampening impact of rising interest rates. Lending dynamics have also been affected by more stringent credit standards, mainly driven by banks having a higher risk perception in a context of increasing costs of financing and weak economic growth.

It should be noted, nevertheless, that the spread between interest rates for small loans, often granted to SMEs, versus large loans increased only somewhat in July 2023 (the latest available data). Historically, this spread has remained stable at low levels, though with some variation across euro area countries. This suggests that ongoing policy rate increases are so far not disproportionately affecting credit costs for SMEs.

At the same time, typical lags in monetary transmission mean that the bulk of the economic impact from the considerable monetary tightening to date will only materialise over time. ECB staff analysis, based on a range of macroeconomic models, suggests that the policy normalisation that started in December 2021 is expected to push down inflation by 2 pp on average over the period 2023-25 and most of the impact of policy normalisation on inflation is only expected to materialise from now onwards.

It will thus be important to carefully take this factor into account and continuously reassess the impact of monetary policy. As also noted in the ECB's risk assessment, a stronger transmission of monetary policy may result in weaker demand, which, in turn, would lead to lower price pressures, especially over the medium term. This is also reflected in the guidance given by the Governing Council, which made it clear that the strength of monetary policy transmission will be one of the factors it considers when making decisions about future interest rates.

With respect to the issue of heterogeneity, the tightening of financing conditions appears to have been broad-based across euro area countries. The current cycle followed a period of convergence of lending rates across countries as transmission normalised following the financial and sovereign crises. The dispersion of lending rates to firms has remained broadly stable since the start of the tightening cycle. Dispersion has increased for households over the last year, but only driven by a limited number of small countries, without which dispersion would actually have decreased. Credit standards have also tightened substantially across countries, driven by banks' lower risk tolerance and higher risk perceptions. These tighter financing conditions have led to a broad-based deceleration of credit growth.

12. *What is your opinion of the ECB's current approach and pace of reduction of the ECB balance sheet? What are your views on the implications of the excess liquidity in the euro area? Are you concerned by the reliance of commercial banks on TLTROs as a key source of funding? Should the ECB sell off carbon-intensive assets to speed up the greening of its balance sheet, given that it will no longer be able to achieve this tilting through replacement of maturing bonds?*

The key ECB interest rates are the ECB's primary tool for setting the monetary policy stance. The reduction of the balance sheet plays a complementary role in tightening monetary policy. The Eurosystem balance sheet has already shrunk considerably since the start of monetary policy normalisation. Repayments of the third series of Targeted Longer-Term Refinancing Operations (TLTRO ‑III) since November 2022 have amounted to about € 1.5 trillion, while reinvestments of the Asset Purchase Programme (APP) portfolio were fully discontinued in July.

This ongoing normalisation of the Eurosystem balance sheet will gradually reduce the quantity of excess reserves held by euro area banks, and a measured and predictable approach to balance sheet normalisation minimises the risks of market strains and distortions of the yield curve as short-term interest rates increase and follow policy rates. To the extent that excess liquidity is expected to decline only gradually, I do not expect the reduction in excess liquidity to have significant financial stability implications. Given the average size of the monthly redemptions, the reduction in the APP portfolio should be absorbed by the market in a smooth manner and not cause any disruption. The ECB is in any case well equipped to address unwarranted tensions in financial markets during the normalisation process - see my answer to question no.13. Moreover, central bank liquidity is available via fixed-rate full allotment, and banks have sufficient time to re-adjust their funding and the composition of their high-quality liquid asset buffers. Forthcoming TLTRO repayments should therefore be manageable with the available liquidity in the system. Nonetheless, watching out for any potential liquidity or funding problems that large financial institutions may have remains important.

Additional TLTRO repayments and the gradual rundown of the APP portfolio will cause the Eurosystem balance sheet to shrink over the coming years, further reducing excess liquidity. The optimal size and composition of the Eurosystem balance sheet, as well as the appropriate level of excess liquidity, remain open questions. This issue is not only pertinent to the ECB, but also to all major central banks, as the operational environment in which they operate has dramatically changed over the past decade. I am pleased that Eurosystem staff are investigating this matter. It is a complex issue with far-reaching implications for how we implement monetary policy, also in light of uneven liquidity distribution across banks and jurisdictions.

While investments in the APP have been discontinued, climate change considerations continue to be incorporated into the reinvestment purchases of corporate sector securities under the Pandemic Emergency Purchase Programme (PEPP) – see my answer to question no. 20. PEPP reinvestments of corporate sector securities thus continue to be tilted towards companies with a better climate performance. The ECB continues to bid in primary market issuances from issuers with a better climate performance. I welcome this tilting approach as it mitigates climate risks on the Eurosystem balance sheet, but also supports the EU’s green transition policies.

In this regard, let me also recall that the Bank of Italy has a very strong commitment towards the sustainability of its own financial investments. As early as 2019, the Bank of Italy started to incorporate ESG criteria into its equity portfolios, rapidly followed by corporate bonds. Since then, the Bank of Italy has implemented a comprehensive strategy, giving priority to firms that are most committed to climate transition. To this end, the models for selecting corporate equity and bonds have been revised in order to take account of firms’ decarbonisation commitments. Specifically, the Bank of Italy evaluates whether companies have certified science-based targets and also their level of climate ambition. The results are material: with regards to the equity portfolio, the weighted average carbon intensity has decreased by 36 per cent since the end of 2020, while the market benchmark has only decreased by 16 per cent. As regards government bonds, the share of green bonds in the financial portfolio reached 2.8 per cent at the end of 2022, from 0.7 per cent at the end of 2021. Recently there have also been two new initiatives: the setting-up of a thematic equity portfolio made of companies enabling the transition and the engagement with the investee companies to gather comparable and thorough information on their carbon reduction strategies and results achieved.

13. *How do you assess the ECB's decision to introduce the Transmission Protection Instrument (TPI)? Do you see any risk of moral hazard? In your opinion, how should the ECB assess "unwarranted, disorderly market dynamics"? By not activating TPI, does the ECB not risk 'endorsing' the spread as justified? If so, could spreads undermine debt sustainability of affected Member States, leading to self-fulfilling prophecies? Under which circumstances would you see OMT being relevant? How does the ongoing review of the Economic Governance Framework affect in your view the criteria for TPI eligibility?*

The decision taken in 2022 to enrich the ECB's toolbox with the Transmission Protection Instrument (TPI) has enabled the Governing Council to adjust its monetary stance without being concerned about potential financial tensions that could impede the efficient transmission of monetary policy throughout the euro area. When the ECB raises rates, it is critical that changes in the monetary policy stance are transmitted smoothly across the euro area. This does not mean that financial conditions must be the same in every country. Differences in local financial conditions can be legitimate when they arise due to country-specific macroeconomic developments. However, the ECB's monetary policy impulse should be transmitted smoothly across jurisdictions and not give rise to disproportionate reactions to a degree that is disconnected from fundamental factors.

I believe that the TPI's design is the right one for addressing a range of shocks not relating to a country's fundamentals that can lead to fragmentation of and ultimately to impairments to the transmission mechanism. Two factors in its design are particularly important. First, the TPI does not set upfront restrictions on purchases. Instead, it adapts the scale of purchases according to the level of risk to the transmission of monetary policy. Second, the TPI establishes specific eligibility criteria that revolve around four key factors, which will be inputs into the Governing Council's decision making: i) compliance with the EU fiscal framework; ii) the absence of significant macroeconomic imbalances; iii) fiscal sustainability; and iv) the presence of sound and sustainable macroeconomic policies.

I also very much welcome that the criteria for activating the TPI have been clearly and transparently spelled out: any decision to activate purchases will be based on a three-step analysis: i) a comprehensive assessment of market and transmission indicators; ii) an evaluation of the eligibility criteria; and iii) an assessment of whether activating purchases under the TPI is proportionate to the achievement of the ECB's primary objective. Such clarity on the activation process provides the necessary reassurance that the ECB is always in a position to activate the TPI to counter unwarranted, disorderly market dynamics that pose a serious threat to the transmission of monetary policy across the euro area.

The TPI and Outright Monetary Transactions (OMTs) are two distinct, yet equally important elements of the ECB's toolbox aimed at addressing different situations. The OMT mainly addresses "redenomination risk", i.e. "severe distortions in government bond markets which originate from, in particular, unfounded fears on the part of investors about the reversibility of the euro". This is also reflected in the different conditionalities. The OMT foresees strict forms of ex/post conditionality, including the availability of financial support through an ESM programme. On the contrary, the TPI builds on the ex-ante eligibility criteria I listed above, and all euro area countries are in principle eligible for the TPI, subject to meeting these criteria.

One of these criteria refers to compliance with the EU fiscal framework and in particular not being subject to an excessive deficit procedure (EDP), or not being assessed as having failed to take effective action in response to an EU Council recommendation under Article 126(7) of the TFEU. Of course, the conditions for opening an EDP or being assessed as having failed to take effective action are defined in the relevant legislative text that is currently being negotiated by the legislators. The debate on such a reform is still ongoing. Once the negotiations on a new economic governance framework are concluded, the overall procedure for TPI activation that the ECB laid out in the past will continue to be valid and the TPI criteria will mechanically reflect the agreed reform. This will apply to the TPI eligibility criteria for compliance with the fiscal framework, in the absence of severe macroeconomic imbalances, and with sound and sustainable macroeconomic policies.

14. *What is the relation between maintaining price stability and safeguarding financial stability and how should this issue be considered in monetary policy decisions in the current environment? Do you see any trade-off between those two objectives?*

Price stability and financial stability are two different objectives that can be pursued by the central bank via two different instruments: monetary policy and macroprudential policy. Therefore, according to basic economic principles, we should be able to attain both goals at the same time.

However, the instruments and objectives have multiple interactions with each other, giving rise to both complementarities and trade-offs.

In normal times, the two objectives are complementary: in the near term, maintaining financial stability is a precondition for the smooth functioning of the transmission mechanism of monetary policy and, thus, for effectively counteracting inflation pressures; in the longer run, by achieving price stability monetary policy provides a crucial contribution to financial stability.

In line with this, monetary and macroprudential policies generally exert positive spillovers on each other. For instance, during a downturn in the financial cycle, monetary easing may help in sustaining debt repayment capacity, reducing the risk of financial instability. Similarly, a tight macroprudential stance during a period of sustained price growth may help slow down credit and aggregate demand, thereby reinforcing the tightening effect of monetary policy.

Sometimes, however, the pursuit of price and financial stability generate trade-offs. For example, a tightening of financing conditions pursued by monetary policy with the aim of restoring price stability may be detrimental for vulnerable debtors, thereby contributing to creating pockets of instability. Similarly, a tightening of macroprudential buffers in a contractionary macro-financial environment may help build-up bank resilience but should carefully balance this objective with the need to avoid pro-cyclical effects. The tensions between the two objectives may become particularly relevant in a context characterised by persistently high degrees of uncertainty.

These trade-offs can be managed by a continuous assessment of the conditions of the economy and of the links between monetary policy and financial stability in the euro area. The ECB's monetary policy medium-term orientation allows these challenges to be accounted for, thereby maintaining financial stability without compromising the timely return of inflation to target.

The last biannual assessment by the Governing Council of the financial stability environment took place at the June meeting. It concluded that the environment has remained challenging since the previous review in December 2022, though manageable.

In particular, the assessment highlighted the effect of tightening financing conditions on banks' funding costs and credit risk. It pointed out the risk that, also in light of the tensions that emerged in the US banking system last March, these factors may give rise to systemic stress and affect economic growth in the short term. In addition, a downturn in real estate markets may be an additional factor weighing on the resilience of the financial sector in the current environment, which could be reinforced by higher borrowing costs and a rise in unemployment.

A number of factors act as safeguards to these risks. First, banks have solid capital and liquidity buffers. Second, the rise in nominal interest rates has so far strongly supported banks' net interest margins and boosted overall profitability. Third, while higher interest rates and the deterioration in the macroeconomic outlook put pressure on borrowers' debt repayment capacity, we have not observed a significant deterioration in banks' asset quality.

Moreover, macro-prudential policies complement our single monetary policy and allow for different calibrations of the policy mix, helping to address the differences in the business and financial cycles across member countries. Macro-prudential policies can also be targeted to specific sectors, products and institutions, thereby granting flexibility to address the vulnerabilities that could emerge as a side effect of monetary policy. In this regard, it is important to continue the efforts to complete the macro-prudential framework in the euro area, in particular to ensure more effective regulation and supervision of non-bank financial intermediaries.

Overall, I do not see a material trade-off between price stability and financial stability at the current juncture. Going forward, financial stability will and must continue to be assessed as monetary policy tightening is passed through, and the aforementioned factors should continue to be watched closely. To ensure the proper transmission of monetary policy and the stability of the financial sector, the ECB's monetary policy stance can, if needed, be flanked by measures geared at maintaining orderly market conditions, while macroprudential policy remains the first line of defence in preserving financial stability and addressing medium-term vulnerabilities.

15. In your opinion, what are the implications of decreasing profits of national central banks *within the Eurosystem as a consequence of monetary policy tightening? To what extent does this pose a risk to central bank credibility and independence? Are diverging national practices on central banks' assessments and provisions for financial risks and profit distribution compatible with a single monetary policy?*

The ECB has a clear mandate to maintain price stability in the euro area. The modalities of its monetary policy instruments are therefore set in pursuit of the price stability objective. A worsening of the financial results of the ECB and national central banks may therefore arise as a by-product of the primacy of this objective. If occasional central bank losses are not be tolerated, policy decisions would be unduly influenced by profit considerations, hampering the ability to set the monetary policy stance to ensure price stability over the medium term. Furthermore, an unwillingness to accept losses may also incentivise accepting a higher inflation path to decrease the real value of losses once they accrued, which would be inconsistent with the monetary policy objective. It follows that a temporary decreasing of the profits of national central banks does not put their credibility and independence at risk. On the contrary, the Eurosystem would not fulfil its mandate and would not preserve its independence if monetary policy decisions were influenced by profit considerations.

While different national practices for profit distribution are compatible with the Treaty, Eurosystem central banks enjoy financial independence in order to avail of the means necessary to fulfil their tasks and to manage their risks, as was recently confirmed by the EU Court of Justice. For this purpose, Eurosystem central banks monitor the risks on their balance sheets and manage them to ensure they are proportionate and necessary to meet its mandate. Furthermore, a Eurosystem-wide framework is in place for quantifying financial risks to the Eurosystem. Over the last ten years, the Eurosystem central banks have recorded profits of around €300 billion. A part of these profits has been used to build up substantial buffers to absorb potential future losses stemming from the materialisation of interest rate or other financial risks, and the provisions attained in earlier years remain substantial. These buffers, risk management frameworks and other safeguards ensure that losses would not impair the ability to maintain price stability. The ECB's future monetary policy decisions must therefore continue to focus on fulfilling the primary mandate, namely ensuring price stability in the medium term.

16. In your view, what should be the main focus of the ECB's monetary policy strategy review in 2025? What do you see as the most important risks and challenges facing the ECB? Has the strategy in the past been sufficient to implement also the ECB's secondary mandate, without prejudice to the primary mandate?

The ECB's monetary policy strategy review in 2025 will be an opportunity to assess the effectiveness and efficiency of the new strategy that was adopted in 2021, and to consider possible adjustments in light of the evolving economic and financial environment. The overall focus of the 2025 review should be to ensure that the ECB's monetary policy continues to fulfil its mandate.

Even if the definition of the priorities and the perimeter of the strategy review will be set by the Governing Council at the appropriate moment, I personally think that the ECB should take into account the implications of global challenges such as international fragmentation, digitalisation and climate change. The 2021 strategy review looked at how the increasing trade and financial integration since 2003 had affected the economic environment in which the ECB operates. Nowadays we are experiencing increasing trade fragmentation. If this trend were to continue, it would be important to look into how it could affect the ECB's monetary policy. For instance, trade barriers can reduce the pass-through of exchange rate movements to import prices, and thus weaken the impact of monetary policy on inflation. Similarly, trade fragmentation can increase the need for monetary policy accommodation to offset the negative effects of trade shocks on output and inflation, but it can also raise the risks of financial imbalances and inflationary pressures in some sectors or regions. Moreover, digitalisation can foster innovation and efficiency in the payment sector, but it can also pose challenges for financial stability, consumer protection and monetary sovereignty. I think it would be important to assess the potential benefits and risks of these trends, including how the introduction of a digital euro could benefit the conduct and implementation of monetary policy.

Regarding climate change, the 2021 strategy included a comprehensive action plan to incorporate climate change considerations into the ECB's monetary policy framework. The ECB's actions to integrate climate change into monetary policy have been ambitious, especially when compared with the much more conservative approaches taken by other major central banks. Building on this, it would be important to discuss how to ensure that the ECB's strategy is still fit for purpose in a changing economic and financial environment. In a context of high-inflation and high-interest rates, a renewed and critical reassessment of the ECB's strategy can hence be beneficial - to ensure that the approach is in line with the new realities and explore possible new avenues where ECB monetary policy could support EU climate objectives without being in conflict with price stability.

The ECB should also consult with a wide range of stakeholders again, including the European Parliament, businesses, academics, and the public – see my answer to question no. 46. Doing so ensures that the ECB uses the tools best placed to achieve its mandate of maintaining price stability.

17. *Why does ECB largely rely on credit rating agencies to determine whether the government debt of Member States is eligible for ECB operations? Although the ECB's Governing Council reserves the right to deviate from credit rating agencies' ratings if warranted, in line with its discretion under the monetary policy framework, thereby avoiding mechanistic reliance on these ratings, it is not clear what this discretion involves and how it is applied. In your opinion, could the ECB framework on collateral contribute to fuelling the risk of fragmentation?*

The Eurosystem only provides credit against adequate collateral, in line with its statute. It accepts a broad range of different assets as collateral, applying valuation haircuts duly graduated according to differences across maturities, liquidity categories and credit quality. To assess the credit quality of eligible assets, the Eurosystem relies on multiple sources within the Eurosystem credit assessment framework (ECAF): credit rating agencies are among these, but so are national central banks' in-house credit assessment systems (ICASs) and counterparties' internal ratings-based (IRB) systems.

For instance, the Bank of Italy has been relying on ICASs and IRBs for years and built up an extensive expertise in assessing and calibrating these systems, to ensure their compliance with the specific regulatory, operational and information requirements. The recourse to ICASs and IRBs has allowed counterparties to mobilise good quality loans as collateral in Eurosystem monetary policy operations. This has not only allowed counterparties to keep adequate collateral buffers also amid liquidity tensions but also helped supporting the provision of credit to the real economy. ICASs, in particular, allow smaller banks, which are specialised in lending to small and medium-sized enterprises and might not have an IRB system or sufficient marketable collateral available, to mobilise credit claims in order to access monetary policy operations.

The Bank of Italy's ICAS generates fully fledged ratings for over 4,000 firms on a yearly basis. and, in addition, purely 'statistical probabilities of default' for around 370,000 firms, currently used by more than 50 banks accessing monetary policy operations. In preparation for a wider use of the ICAS, new dedicated ICAS units were established in 2022 within the main branches of the Bank of Italy.

The ECAF outlines the procedures, rules and techniques for ensuring that assets used as collateral and for purchases in monetary policy operations satisfy stringent credit quality standards. The use of external ratings in the assessment of sovereign creditworthiness within the monetary policy framework was also evaluated within the context of the monetary policy strategy review. The Eurosystem does not solely, nor mechanically, rely on credit rating agencies for the purpose of determining the eligibility of sovereign bonds in the ECB's collateral framework. It engages extensively with the credit rating agencies in order to closely scrutinise ratings and gain a deeper understanding of them, also to distinguish the role of judgement in ratings.

Through comprehensive due diligence, the Eurosystem can exercise discretion and deviate from external credit ratings when deemed necessary. For instance, the Eurosystem has previously granted waivers to the minimum credit quality requirement in order to accept sovereign debt instruments from individual countries. Additionally, during the COVID-19 pandemic, it maintained the eligibility of certain marketable assets, including sovereign bonds, even in cases of downgrades by credit rating agencies. This underscores the Eurosystem's commitment to leveraging all pertinent information to assess an asset's credit quality. The Eurosystem has taken measures to support the smooth implementation of monetary policy in all Member States and avoid cliff effects, when the Governing Council has considered such measures to be necessary, adequate and proportionate.

These measures can be quite impactful when multiple equilibria are present, by preventing the materialisation of a scenario where the loss of eligibility of sovereign bonds for monetary policy operations leads to a self-reinforcing cycle of economic decline. At the same time, the Governing Council has used risk control measures to address the additional risk taking associated with discretionary measures.

18. How in your view can the ECB contribute to economic growth, green transition and full employment while fully complying with its primary objective to maintain price stability?

As I noted in my answer to question no.7, the ECB's monetary policy is guided and bound by its mandate in the Treaties. In my view, it is clear that monetary policy which delivers on the ECB's primary mandate of price stability contributes to sustainable economic growth and prosperity in Europe. The medium-term orientation of monetary policy allows it to dampen economic cycles and helps to mitigate part of the associated socioeconomic costs. Moreover, in its most recent strategy review, the ECB decided to adopt a comprehensive action plan to further incorporate climate change considerations in its policy framework. The green transition will likely have profound effects on the structure of the economy, as I outline in my answer to question no. 20, and in turn has implications for monetary policy through its effects on prices and the transmission of monetary policy. It is thus important that the ECB gains a better understanding of the interaction between important changes in society such as the green transition and its monetary policy. Therefore, I believe it is important that it continues its efforts, that began as part of the strategy review, to include climate change considerations in its policy strategy.

19. In your view, does the ECB sufficiently take into account the European Pillar of Social Rights in its policy-making?

I believe that achieving balanced economic growth, full employment, and price stability are goals that align with each other over time – as also noted in my answer to question n. 7.

Although labour market outcomes are primarily influenced by national policies, the ECB's monetary policy, through its commitment to price stability, can play a supportive role in achieving full employment. This alignment between the goals of monetary policy and of full employment is closely tied to the primary objective of the European Pillar of Social Rights, which aims to foster a fair, inclusive, and opportunity-rich Europe in the 21^{st} century, as emphasized within the Pillar's principles.

Let me emphasize, too, that the ECB's medium-term focus on achieving price stability also offers enough flexibility to enable it to contribute to the achievement of the EU's full employment objective. When faced with economic shocks, a medium-term policy perspective that accommodates employment considerations without compromising the fundamental goal of price stability can yield more favourable societal outcomes compared to a short-term approach solely focused on a narrow inflation targeting over a very short horizon.

I also believe that it is particularly important that the ECB closely and regularly monitors employment dynamics, income distribution, and other key aspects of the labour market, and assesses the impact of its policies on these factors. Beyond internal analyses, I believe that it is beneficial that the ECB regularly publishes research and analysis on the labour market and provides the public with a wealth of data on labour costs and negotiated wages, including experimental ones.

Finally, I welcome that the ECB also recognises the importance of social dialogue and the role of social partners in shaping the economic and social policies of the Union. I particularly appreciate the ECB's regular engagement with representatives of trade unions and employers' organizations, such as through the Macroeconomic Dialogue, as well as its interactions with civil society organizations, including the regular listening events and seminars organized in collaboration with them.

20. *How do you evaluate the ECB policy on climate change? Do you agree that the ECB's action in this regard must not come at the expense of market neutrality or achievement of the ECB's primary objective? To what extent does it play into the ECB's primary, and secondary, mandates?*

The profound magnitude of climate change, characterised by escalating global temperatures, increasingly severe weather events, and the accelerating loss of critical ecosystems, emphasizes the urgency of addressing this crisis promptly, not only to safeguard our planet and future generations but also to mitigate the escalating economic impacts stemming from these environmental disruptions. The green transition thus needs to remain on track. After all, the cost of the green transition will be considerably lower than the long-term costs of unabated climate change.

Through its Climate Law, the EU is committed to achieving climate neutrality by 2050. This means that in many parts of the European economy substantial transitions will have to take place. These transitions will have implications for inflation and can if not managed appropriately create financial risks.

In my view the prerogative for ambitious and decisive action on climate and energy transitions lies clearly with governments and parliaments. However, the ECB as a European institution has an obligation to manage its own exposure to climate risks. The ECB's policy on climate change in this regard is hence fully aligned with its primary objective of price stability.

Moreover, the ECB can and should take climate change into account based on its objective to support the general economic policies of the Union without prejudice to price stability – as I noted in my answer to question no. 7. The ECB has recently taken steps to more actively manage the climate risks in its own portfolio and to make sure that banks actively manage climate risks in their books. Moreover, bond issuers are incentivised to disclose climate related information and reduce their carbon footprint. The ECB did so by tilting its corporate sector bond portfolio towards assets issued by companies with better climate performance scores (see my answer to question no.12), and through changes that will be made to its collateral framework to limit the ECB's exposure to carbon intensive industries. I believe that the latter measure will be particularly effective in reducing the climate-related financial risks in Eurosystem credit operations, as it will limit the share of assets issued by entities with a high carbon footprint that can be pledged as collateral by individual counterparties when borrowing from the Eurosystem. Last, but not least, let me also welcome the measures taken by the ECB to further enhance its risk assessment tools and capabilities to better incorporate climate-related risks. Enhancing the external evaluation of climate-related risks is of paramount importance. This improvement will create incentives for issuers to enhance their transparency in addressing these risks, ultimately unlocking the full potential of the private sector in facilitating the transition. I thus fully support the ECB's call to rating agencies to be more transparent about how they incorporate climate risks into their ratings and to be more ambitious in their disclosure requirements on climate risks.

Let me add that, during my time at the Bank of Italy, I have demonstrated a commitment to the sustainability of its activities. Our latest three-year strategic plan confirms and strengthens the Bank's ambition to play a leading role in environmental protection, with two action plans: one to step up its sustainable finance initiatives and its fight against climate change and another to steadily reduce its carbon footprint in order to achieve a long-term net-zero emissions target. To mention just a few initiatives related to our role in the cash cycle, for example, 100% of purchased electricity now comes from certified renewable sources, the vehicle fleet used for national banknotes transportation will be completely renewed by 2025 and raw materials transportation as well as banknote distribution will be optimized to reduce the number of journeys.

21. *What is your view on central bank digital currencies? What is your view on the introduction of a digital euro? How would you address the risks that could come with such a currency? What are your views on its potential use beyond the euro area? How do you assess the Commission's legislative proposal? How do you see the role of the European Parliament and the ECB in this process?*

Central bank digital currencies can meet societies need for a digital form of cash for the digitalized world. As such it would give Europeans the option to use central bank money digitally, complementing coins and banknotes. Complementing, not replacing, because cash is here to stay – see also my answer to the next question no. 22.

Like cash, a digital euro would be risk-free, user friendly and widely accessible and free for consumers. The digital euro could contribute to making people's lives easier by providing a universally accepted form of payment in (online) shops or from person to person throughout the euro area. In addition, given Europe's reliance on non-domestic payment providers, the digital euro would allow us to strengthen our strategic autonomy and resilience.

From a broader perspective, the use of the digital euro outside the euro area, or the possibility of making cross-currency payments between the digital euro and other central bank digital currencies, will facilitate cross-border payments, in line with the agenda of the G20; the Eurosystem during the investigation phase has also considered the possibility to provide cross-currency functionalities for the digital euro in the future. While the priority remains the timely delivery of a digital euro that fulfils the needs of users in the euro area, the provision of cross-currency functionalities could be contemplated - once the digital euro is successfully launched - where there are mutual interests with other monetary jurisdictions. For the time being cross-borders payments can benefit from the interlinking of fast payment systems.

The digital euro will have implications for the whole society, therefore active engagement with all stakeholders in both the public and private sector is fundamental. I support the ECB's transparent approach in this regard, which includes building on the contact of the National Central Banks with national actors. As a matter of fact, in designing the digital euro, the ECB has been engaging with a lot of stakeholders both in the public and private sector. In this context, Bank of Italy has been proactive with market operators in the discussion on the design of the digital euro, notably through the Italian Payments Committee, which is the reference forum for the payments sector in which the national community can define strategic orientations. Moreover, in direct cooperation with the Ministry of Economy and Finance, Bank of Italy has also involved the public sector in the discussion and informed the various relevant authorities.

Currently, the digital euro enjoys strong support from consumer and merchant associations. As they are the future users of a digital euro, their views are crucial for designing the payment landscape of tomorrow. Some other market stakeholders, particularly banks, may still have some concerns and questions. I thus believe that it is key to keep engaging with them to highlight the opportunities that the digital euro would bring, especially in retaining their customers in a payment landscape where other market players are starting to play a bigger role – see my answer to the next question n.22.

I also attach very much value to the engagement the ECB had with the European Parliament, as it has allowed the ECB's to publicly communicate about the project to the EU citizens it serves, as well as to get precious feedback for determining the optimal design of a digital euro. Democratic debate on this issue is essential. It would also allow us to effectively communicate the benefits that the digital euro could have for people across the euro area. I very much support the ECB being very transparent and open to regularly updating the digital euro project information on its website on the occasion of the ECON hearing and to translating it into all EU languages. I am fully committed to continuing active engagement with the European Parliament going forward.

I welcome the legislative proposal by the European Commission on a digital euro. It is important that the digital euro be a universal means of payment owing in part to its proposed status of legal tender. Basic digital euro services should be available for free while maintaining sufficient incentive for private actors to distribute the digital euro widely. Importantly, the proposed legislation contains strong commitments to the key issue of privacy while limiting the risks of misuse. Last, but not least, I support that the ECB has the responsibility to design and use the tools necessary to control the overall amount of digital euro in circulation and stem an excessive outflow of bank deposits into digital euro. I believe that with tools like holding limits, the ECB can prevent any negative effects on monetary policy, financial stability and credit allocation to the real economy – see my answer to the next question no. 22.

Going forward, in my view it is in important that the ECB stands ready to offer technical support to the European co-legislators with awareness and respect for the institutional mandates of all parties involved. The ECB will have to closely monitor the legislative process and potentially make some adjustments to the digital euro design accordingly. Regardless, I agree that the digital euro could only be issued in the future once the relevant legislation has been adopted.

22. Which role do you see for cash-based transactions compared to digital transactions in the future? How do you see the interaction between cash and a digital euro? How do you see the evolution of the payment system? In this context, how should the regulatory framework for crypto assets and stable coins evolve? How do you think the evolution of the payment system could affect the transmission of monetary policy?

In recent history people's payment behaviour has been changing at a rapid pace. Partially driven by the pandemic, cash payments at the physical point of sale (POS) in the euro area have dropped from 72% to 59%, as a number of transactions (from 2019 to 2022). It went from 47% to 42% in terms of values over the same period. These averages hide substantial heterogeneity, in some member states cash is used in roughly 20% of transactions while in other still represents the most used payment instrument at the physical POS. Cash is also particularly important for groups such as the elderly, people with disabilities who may have difficulty accessing digital payments, and people with more limited digital skills or low income. Financially excluded people, such as the unbanked, who may be unable or unwilling to use alternative payment instruments, also rely almost exclusively on cash. Euro banknotes and coins are the only form of public money that everyone can access directly in the euro area, and they have legal tender status.

Moreover, central banks are not there to dictate how people should pay but rather to provide the means of payment they require. That is why the Eurosystem keeps investing in developing ever better banknotes in term of quality, safety and impact of the environment and why we engage the banking sector to make sure that cash is easily accessible everywhere in the euro area.

Therefore, I believe that the ECB, together with the other stakeholders, has a key responsibility to ensure the availability and usability of cash for payments by people and businesses. This is the objective of the Eurosystem's cash strategy and of the recent Commission's legislative proposal aiming to ensure that cash continues to be a vital part of the payments system. I support these two initiatives. The Bank of Italy, to the extent of its responsibility, has already taken on the commitment to ensure that cash remains widely available and accepted through several initiatives. Along the lines outlined in the Eurosystem's cash strategy and in the draft Regulation on the legal tender of cash, Bank of Italy established a close monitoring process on access to cash, based on two pillars: first, a granular database providing the map of cash access points for each square km of the national territory (including remote and mountain areas), second, a collection of information on the level of consumer satisfaction regarding the access to cash, through the repeated inclusion of ad hoc questions in national surveys. As each country has its own national specificities, Bank of Italy also launched, together with the main, public and private, stakeholders of the cash cycle a joint reflection on how to improve the domestic cash cycle infrastructure and its resilience.

The trend toward a reduced relevance of cash in transactions reflects in part a change in people's preferences and in part the retrenching of the technology to pay with cash. However, surveys show that despite this trend people find it important to have the option to pay with public money. With digital payments becoming increasingly popular, the digital euro would respond to this growing preference by making public money available in a digital form alongside cash. A digital euro would therefore complement cash, not replace it, and leave it to the preference of consumers to decide how they would like to pay.

In my view the effects of a digital euro on monetary policy and financial stability require careful consideration. Deposits represent the main source of funding of euro area banks. A digital euro if not well designed could lead to financial stability risks and risks to the monetary transmission because of potential outflows of deposits. Such undesirable consequences that may result from the creation of a digital euro should be minimized in advance by conscious design. As I noted my answer to question no. 21, in my view it is possible to design a digital euro in a way to address these problems in advance. One example of this would be quantitative limits on digital euro holdings by individuals.

Even if the exact calibration of these tools will have to be decided closer the possible issuance date, I welcome that the ECB has already carefully analysed the matter, as demonstrated by the numerous studies published over the past months. Even if effects on bank intermediation are found to vary across credit institutions and market conditions, they clearly show that well calibrated holding limits would be successful in containing the impact on bank liquidity risks and funding structures and on the Eurosystem balance sheet, even in extremely pessimistic scenarios. I believe that the ECB should continue conducting such analyses in the coming years, updating the assumptions about the degree of substitution between different forms of money, enriching the possible take-up scenarios, updating the assumptions regarding the liquidity available within the banking system and the liquidity risk preferences of the markets and supervisors, enriching the assumptions about possible bank's business model and the functioning of the interbank market.

At the same time, it is important to remember that the counterfactual to a digital euro is not the status quo. The real counterfactual is a financial system in which central bank money could be crowded out alongside means of payments offered by traditional intermediaries. This is because the payment market is increasingly dominated by technology firms that control cross-border digital payment rails and we are also witnessing an expansion of Big Tech firms into payments and new instruments such as crypto assets and stablecoins. This presents risk for competition in payments and financial stability, especially if central bank money were to lose its role as a monetary anchor.

I thus welcome that the EU equipped itself with a strong regulatory framework for crypto-assets and stablecoins (see also my answer to question no. 33), but it has to remain vigilant as the convergence of these two powerful trends – rising role of Big Tech firms and crypto assets - has the potential to reshape the very foundations of the payment market. For instance, the entry of Big Tech firms into the digital currency arena raises significant questions and concerns. Issues related to data privacy, regulatory compliance, and market concentration come to the fore. How these companies manage and safeguard user data, especially when financial transactions are involved, becomes a critical point of scrutiny. Furthermore, it is imperative to thoroughly examine the implications arising from these developments, with a particular focus on the potential for monopolistic practices and the associated risks to financial stability.

Looking at the wider landscape of financial market infrastructures, the recent wave of technological innovation, and more specifically the raise of Distributed Ledger Technology (DLT) and virtual assets, is bringing deep changes to the supply of financial services and to the nature of the actors providing them. These innovations also bring significant risks, including the exposure to cyber-risks and lack of interoperability of the different DLT platforms.

The ECB is paying close attention to these developments in its roles of operator and overseer, in order to ensure that euro area payment systems remain safe, efficient and innovative. More specifically, the provision of a central bank money settlement solution for DLT-based asset transactions could be a key factor for the adoption of this new technology. Indeed, the involvement of the central bank community, besides their commitment to provide a safe settlement asset, would be perceived as a broader public sector support for innovation. In this regard, I welcome that the ECB and the Eurosystem's central banks are investigating how central bank money (CeBM) settlement in euro could take place in the presence of such new technologies. Consolidating and advancing the expertise in this domain is crucial to gain a deeper understanding of how various solutions can facilitate seamless interaction between TARGET services and DLT platforms. The Eurosystem and the ECB will thus engage in experiments and trials (involving limited settlement of real payments and assets) to gain practical insights into different solutions together with the market players, for the use of DLT in large value payments and securities settlement. The Bank of Italy is committed to contribute to this work by proposing a solution centred on the Eurosystem's TIPS instant payments platform and a technology-agnostic Application Program Interfaces to synchronize the asset-leg and the cash-leg, making an instantaneous delivery-versus-payment (DvP) transaction possible on a 24/7 basis.

23. Do you think that the euro area needs a European Safe Asset to facilitate the correct *transmission of the monetary policy?*

Modern financial systems rely on safe assets as they serve multiple purposes. They facilitate financial transactions, allow market participants to transfer risks, and are essential for complying with liquidity regulations, which require banks to hold safe assets to meet their funding requirements in stressful scenarios. Additionally, central banks rely on safe assets when implementing monetary policy.

Against this background, I think that a well-designed common safe asset could be instrumental in enhancing the effectiveness of the ECB's monetary policy. In particular, it can help mitigate the negative feedback loops between sovereigns and their domestic banking sector, as well as flights to safety that were observed during previous crises in the euro area. To deliver these benefits, a safe asset should be well-designed. More specifically, a safe asset should not be sensitive to idiosyncratic sovereign risk, have the highest credit standard even at times of severe crisis. Thanks to these characteristics, it would increase the resilience of the euro area economy against future shocks and remove some of the burdens of macroeconomic stabilisation from national sovereigns and the ECB through fostering euro area financial integration.

A common safe asset could also foster integration through facilitating diversification and de-risking of financial institutions' portfolios. Last, but not least, a safe asset would help in the development of a proper euro area term structure, which is essential for the development of genuine European Capital Market Union. As a matter of fact, well-established capital markets have been always established in the history based on a secure public asset. For instance, in the United States, capital markets have evolved in parallel with the introduction of federal bonds. Lastly it would enhance the international role of euro

I welcome that the implementation of the temporary Support to mitigate Unemployment Risks in an Emergency (SURE), as well as the Next Generation EU (NGEU) initiative in the context of the EU's response to the Covid-19 pandemic marked a watershed in the discussions on the design of a truly European safe assets. The EU's bonds issued under these programmes are widely considered by market participants as low in default risk, owing to their guarantee structure and backing by EU member states. However, they are not yet entirely priced in line with sovereign bonds, as default risk free, and are still subject to lower market liquidity than large euro area member states' sovereign bonds. Beyond some technical factors, this could also be explained by the time-limited emergency nature of the EU's SURE and NGEU policy initiatives. If such limitations were to be removed – e.g. with the creation of a permanent central fiscal policy at European level, see my answer to the next question n. 24 – then this could further promote EU bonds' status as a supranational safe asset with greater benefits for the euro area.

24. Should there be a euro area fiscal counterpart to the single monetary policy, and if so, how should it be designed?

The ECB's primary mandate is to maintain medium term price stability, defined as an inflation level of 2% over the medium term. The effectiveness of its monetary policy greatly benefits from effective coordination on the euro area fiscal stance. The latter should not be the coincidental outcome of twenty national fiscal policies. The optimal fiscal stance at the euro area and national level may not always be aligned for various reasons. For instance, different preferences at the central and national levels regarding how to balance the two policy goals, i.e. ensuring fiscal sustainability and providing macroeconomic stabilisation, may exist. Hence, national policies may not lead to an "optimal" outcome for the euro area as a whole. Moreover, a mechanical sum of the national policies may not adequately capture the impact of national policies on the euro area. Trade links between countries imply that a fiscal impulse in one euro area country spills over to other countries.

The appropriate fiscal stance for the euro area should thus be achieved through the effective coordination of Member States' fiscal policies at European level. As noted in the ECB Opinion, published in the context of the ongoing review of the economic governance framework, the development of a framework to monitor and steer the aggregate euro-area fiscal stance is important to provide a counterpart to monetary policy, as it can help ensure that monetary and fiscal policy better complement each other.

Moreover, a central fiscal policy tool may also be particularly effective in steering the aggregate fiscal stance where appropriate. Such a fiscal capacity would support macroeconomic stabilisation and convergence in the EMU by for example providing public goods at EU level. It could also ensure that public investment is not compromised during downturns, supporting capital accumulation and fostering future growth. This need is even more pressing taking into account that the Commission estimates that to deliver on the Green Deal objectives, Europe will need to increase the annual investments by around EUR 520 billion until 2030, compared to the previous decade. Hence, an appropriately designed fiscal capacity could support the single monetary policy. For such a fiscal capacity to be effective, it would have to be of sufficient size, have permanent funding, and be coupled with a functioning governance framework including centralized decision-making.

25. *What is your view on the growing nexus between fiscal and monetary policy following COVID-19 and the inflationary shocks related to Russia's war of aggression against Ukraine? Should fiscal policy contribute to achieving the ECB's monetary policy objective and how?*

In practice monetary and fiscal policy interact since they both affect the real economy. Hence monetary and fiscal policy can influence and complement each other. For example, there is growing evidence that monetary policy can reach its goal faster and with less side effects if fiscal policy works in the same direction. Likewise, monetary policy has an impact on fiscal policy as changes in interest rates translate inter alia the fiscal space of governments.

A clear example of how monetary and fiscal policies can effectively interact was the policy response deployed during the COVID-19 pandemic. The response represented a paradigm shift, especially in the euro area: for the first time in a long time, monetary and fiscal policies worked in tandem to stimulate demand, leading to higher growth and inflation approaching 2% - after years in which it was too low. This was possible thanks to the deployment of innovative fiscal instruments at the European level, namely Next-GenerationEU, and monetary ones, like the Pandemic Emergency Purchase Programme (PEPP). Going forward, it would be important to retain the lesson of the pandemic and make sure that an effective monetary-fiscal interaction is able to permanently lift the euro area to higher growth levels and stable inflation.

Another example was the unconventional nature of the fiscal measures adopted following the Russian invasion of Ukraine and the ensuing energy crisis. While the ECB intensified its efforts to fight inflation, euro area countries implemented temporary fiscal measures to alleviate the burden of high energy prices. Most of these measures had a direct negative impact on the cost of energy consumption. They helped to contain inflation, and thus contributed to wage moderation. Citing Italy just as an example, analysis conducted by Bank of Italy's staff showed that Government measures taken in the context of the energy crisis helped reducing inflation by around 2 percentage points in 2022; some of these measures also mitigated the distributional impact of the inflationary shock (see also my answer to question no. 8).

At the current juncture, in the euro area it has become necessary to withdraw fiscal energy support measures in a timely manner. Support measures to shield the economy from the impact of high energy and food prices should in any case be temporary, targeted and tailored to preserve incentives to save energy. Measures falling short of these principles are likely to drive up medium-term inflationary pressures, which would call for a stronger monetary policy response.

Going beyond the short term, a robust monetary-fiscal synergy within the Eurozone necessitates the establishment of a well-functioning economic governance framework. Beyond the elements discussed in my answer to question n. 24, I very much subscribe to the principles outlined in the ECB Opinion on this matter. A well-functioning economic governance framework should deliver on four important priorities: i) bringing down high debt levels in a realistic and ambitious manner; ii) reducing debt heterogeneity across countries; iii) incentivising growth; and iv) increasing countercyclicality. More in general, in this regard I believe that the European Commission's proposal is a step in the right direction, and I hope that an ambitious agreement by EU legislators on the reform of the EU's fiscal framework is reached soon.

26. *How do you assess the recent evolution of the EUR/USD exchange rate? Do you see the EUR/USD exchange rate as a material factor affecting inflation trends? To what extent should international considerations play a role in the conduct of monetary policy and its*

forward guidance?

In recent times shifts in markets' expectations about the macroeconomic outlook and monetary policy stances of various central banks has led to movements in global exchange rates. As a result, the euro appreciated in effective terms against its main trading partners.

The exchange rate of the euro is not a policy target for the ECB; hence I will not comment on its level. However, the exchange rate is important for price developments in the euro area. A weaker currency for example makes imports more expensive, which can lead to higher inflation. For example, if the euro depreciates against the US dollar, the cost of imported goods and services in the euro area will increase, especially raw materials, oil and gas which cannot be substituted by the domestic supply. In addition, one should look at the impact of the demand side of the economy which will be pushed by higher exports and possibly by the substitution effect of imports. All these effects can lead to higher inflation, even beyond goods and services that are heavily imported. A stronger currency can have the opposite effect, leading to lower inflation. In my view, it is therefore important to assess exchange rate developments through the lens of their impact on the inflation outlook, and thus on the implications for the achievement of price stability in the euro area.

27. *Should the ECB take concrete steps to boost the euro as an international currency? If so, what measures do you envision? What are the advantages and disadvantages of such a policy? Do you see the digital euro contributing towards increasing the international role of the euro? If so, how? Has the imposition of sanctions on international reserves affected the international standing of the euro? If so, what can be done in order to counter this effect?*

The international role of the euro is first and foremost a product of a stable and thriving Economic and Monetary Union (EMU). The evolution of the global role of the euro is primarily a market-led process, which can greatly benefit from deepening and completing the EMU. In particular progress on the capital markets union, the completion of the banking union and a well-functioning economic governance framework could support the growth of the euro as an international currency. Last but not least, the international role of the euro could be further strengthened by the introduction of a European safe asset – see my answer to question no. 23.

The international role of the euro should not be taken for granted in an increasing fragmenting world. The new geopolitical landscape increases the onus on European policymakers to create the conditions for the euro to thrive. Rising geopolitical tensions might increase the risk of fragmentation of the international monetary system. In particular, it might encourage some countries to use alternative currencies to the US dollar or the euro. In this respect, the latest ECB report on the international role of the euro does however not show substantial changes in the use of international currencies so far. In 2022, the euro remained the second most important global currency. The report also provides evidence that the imposition of sanctions on international reserves has not materially impacted the international standing of the main reserve currencies.

The digital euro is meant primarily for domestic reasons – see also my answer to question n. 21. Its adoption by residents of other jurisdictions could potentially bring benefits to the euro area and other economies by facilitating cross border payments for the purpose of trade or remittances, in line with the G20 agenda. At the same time, an excessive distribution of the digital euro outside the euro area could have an unwanted impact on the size and composition of the Eurosystem's balance sheet. Moreover, depending on its use and if it were to replace the local currency in a high number of domestic transactions, it could harm the monetary sovereignty and financial stability of non-euro area countries, which is not in line with the Eurosystem stated objectives. That is why I very much appreciate that the regulation on digital euro put forward by the Commission requires the full involvement of the ECB and of the national authorities and the Central Bank of non-euro area jurisdiction whose residents might be granted the right to use the digital euro.

28. *What do you see as the main challenges and opportunities for central bank communication in the period ahead? What role should forward guidance play in the current context? How do you see the concept of forward guidance in comparison to the more ad-hoc and data-driven approach to monetary policy the ECB has pursued in the past couple of months? Do the recent events call for reflecting on the effectiveness of forward guidance? How important do you consider that Governing Council members speak with "one voice" following monetary policy decisions?*

The ECB began using forward guidance in July 2013. This unconventional measure clearly demonstrated its effectiveness in bringing inflation closer to the ECB's objective in a period in which inflation was excessively low. Forward guidance provided an effective mean to influence expectations of future interest rates by conveying the commitment to maintain policy rates at lower levels for an extended period. However, the current scenario differs significantly from that time. The ECB is no longer dealing with a situation in which rates are at their lower bound. Presently, the ECB faces the challenge of combating elevated inflation, all while operating in an environment of heightened uncertainty. Given the high degree of uncertainty, the benefits of allowing for sufficient flexibility when setting the stance in my view currently outweigh any potential benefits of providing more explicit guidance on the policy rates path. For instance, Bank of Italy's research found that that, in the absence of explicit forward guidance on the precise trajectory of the policy rate, since July 2022 financial analysts have adopted the logic of a policy response function (so called Taylor rule) based on the evolution of the outlook for inflation and economic activity to formulate their expectations of the policy rate path.

At the same time, I welcome that the ECB has provided clarity on its reaction function, making transparent to everyone that its future decisions would be contingent on three criteria: the inflation outlook, the dynamics of underlying inflation, and the strength of monetary policy transmission. The ECB has been following these criteria and consistently emphasised them in its communication. I particularly appreciate that these three criteria help mitigate the uncertainty surrounding the medium-term outlook by blending together our staff's inflation projections, the trend that can be extracted from underlying inflation, and the effectiveness of the ECB policy measures in ensuring the return of inflation to target over the medium term.

While I do believe that it is not appropriate to return to forward guidance on policy rates any time soon, I believe that forward guidance should still be used when appropriate, e.g. for guiding expectations about reinvestments under the ECB's pandemic emergency purchase programme (PEPP). Here the forward guidance is clear: the ECB intends to reinvest the principal payments until at least the end of 2024 and that in any case, the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance.

Regarding the broader point of ECB communication, I believe that unity and consistency in communication about the ECB's decisions are vital for the effectiveness of its monetary policy. When members of the Governing Council present a clear and unified message, it helps to reinforce the central bank's credibility, and prevent confusion in financial markets and among the public, which is crucial for maintaining confidence in the ECB's decisions. At the same time, this unity does not imply silencing the debate among Governing Council members: having members express differing views encourages robust and thorough debates within the Council and this can lead to a more comprehensive understanding of the economic and financial conditions, potential risks, and policy options. In essence, the balance lies in encouraging diversity of views in the run-up to decision-making while ensuring consistency in communicating and explaining the decisions once they have been collegially adopted.

Embracing a transparent communication strategy is a crucial element of contemporary central banking. First, open and effective communications enhance the ECB's credibility and effectiveness. Second, communication and transparency are crucial to keep citizens and all stakeholders informed about the role, functions and decisions of the Bank, and as to how the Bank manages public resources. Finally, the inherent statutory independence of central banks should be counterbalanced by a higher degree of transparency about its decision-making processes and outcomes.

I thus believe that reinforcing transparency and communication towards European institutions and the public is a strategic priority for the ECB, not only in terms of quantity and frequency of information, but also in terms of clarity — a formidable challenge for an organization that operates in a highly complex domain, with so many different views, expectations and underlying interests among the various stakeholders. Academic research suggests that more accessible, relatable and visual communication can increase the impact of the central bank's messages. The 2021 strategy review has led to the introduction of more understandable and relatable communication and I believe that this path should be pursued forward, especially in the current environment in which inflation level is not yet at 2%. Improving the clarity of the ECB's communication would play a crucial role in maintaining firmly anchored expectations.

As Deputy Governor of Bank of Italy, I have personally been involved in many activities, be they at a national level or as part of area-wide actions. I have taken part in parliamentary hearings, granted media interviews, held public speeches in a variety of contexts. I have engaged in dialogue with market operators and other institutions. If confirmed in my new capacity, I will put my energy at the services of the already excellent work the ECB is doing in addressing these challenges, going well beyond its legal obligations.

29. How would you assess the monetary policy spillovers, in particular from the United States, for the conduct of monetary policy in the euro area? How can these be reduced in situations like today, when the determinants of US monetary policy are so divergent from the drivers of ECB policy?

International developments play an essential role in the ECB's monetary policy assessment. The euro area economy is affected by policy choices taken by other countries, and vice versa. Thus, I believe that the ECB's policy decisions should and do take into account the spillovers to the inflation outlook deriving from other central banks' actions.

This can be seen from its regular analyses and projections which take into account monetary policy decisions in other jurisdictions, including the implications for global and euro area financial conditions, the euro exchange rate, foreign demand and the euro area growth and inflation outlook. In doing so, the ECB pays close attention to the different channels through which changes in the stance of other major central banks may transmit to the euro area.

The actions taken by the U.S. Federal Reserve, in particular, have important reverberations for the global economy, and they exert a significant influence even on a large and integrated block like the euro area. The recent synchronized tightening of monetary policies globally is no exception. This is corroborated by extensive analytical work, including that conducted at the Bank of Italy that shows that in mid-2022 the US monetary tightening has contributed to containing inflation expectations, not only in the US, but also in the euro area. In any case, should foreign monetary policies put unwarranted pressure on interest rates, the ECB has all the necessary tools to neutralize it and keep control over domestic financial conditions, as concluded by the ECB strategy review in 2021.

C. Financial stability and supervision

30. Where do you see potential to increase the efficiency and effectiveness of supervision through the SSM?

Let me underline that I will observe the required separation of monetary policy and banking supervision if appointed to the ECB Executive Board, and strictly follow the internal procedures and rules which have been established for this purpose.

The Single Supervisory Mechanism (SSM) has been remarkably successful in its first decade, providing a strong first pillar to the banking union, which ensures high-quality supervision across all supervised institutions. It has thereby created a level playing field among participating Member States and delivered in terms of making the EU banking sector more resilient, as evidenced by European banks having remained robust in the face of the COVID-19 pandemic, Russia's invasion of Ukraine and the ensuing energy crisis, as well as the US and Swiss banking sector turmoil in March this year.

In this context, I think that the recent initiatives towards more risk-based supervision is a good step to ensure effective supervision. By prioritising the supervisory efforts on the risks that are more relevant for each bank, and on new risks emanating from, inter alia, digitalisation, it will help allocating the resources more efficiently. It is important that supervisory measures are tailored to the individual situation of each bank and proportionate to the issues they seek to address.

While it is for the Supervisory Board to define the strategic priorities of the ECB Banking Supervision, I would commend that the ECB Banking Supervision pro-actively launched a discussion to enhance its supervisory effectiveness already in 2022, when it tasked a high-level group of experts to review the supervisory processes. I think that it is beneficial that institutions question themselves and seek to improve their own framework. In this way, I see good potential for the ECB Banking Supervision to improve further by following up on the identified findings, as it has committed to do already for 2024. Finally, I also think that efficient supervision requires transparency and predictability. I understand that the ECB Banking Supervision is making a continuous effort to better explain the underlying assumption of supervisory assessments and obtain feedback from policymakers such as the European Parliament as well as financial sector stakeholders.

31. *What is your view on the current institutional set-up of the ESRB under the roof of the ECB with regard to its concrete achievements in macro-prudential oversight?*

The existing institutional structure has, in my view, proven successful. Over the last years ESRB publications, in particular its Risk warnings and Recommendations as well as its Opinions on national macroprudential measures, have been an important basis for debates and decisions regarding macroprudential policy at the national and EU levels. Its cross sectoral approach has enabled it to identify both existing and emerging systemic risks and develop policy proposals to address such risks in a timely and effective manner both in the banking and the non-bank sectors.

I see significant benefits in having the ESRB under the roof of the ECB. On a technical level staff of the ECB and ESRB make extensive use of each other's expertise, while the cooperation between the ECB and ESRB has advantages in terms of efficiency. The ECB provides substantial analytical and logistical support to the ESRB helping it to successfully deliver on its mandate. At the same time, the close cooperation between the ECB and ESRB is important for the effective conduct of monetary policy as well, as financial stability is a prerequisite for price stability. That said, it is important to maintain the independence of the two bodies. In this regard I'd like to emphasise that the procedures and decision-making processes between the ECB's Governing Council and the ESRB's General Board are clearly separated by law and fully respected in the day-to-day operation of the institutions.

32. How do you see the development of asset quality of banks in the context of the challenging economic environment? How do you see the ECB's/the SSM's role in addressing this issue?

Thanks in part to the work of the ECB Banking Supervision, the amount of non-performing loans (NPLs) has decreased significantly from around €1 trillion at end-2014, to below € 340 billion in Q4 2022. The gross NPL ratio dropped from 8% to 2.5%. This shows that supervisors have developed tools and strategies to effectively cope with credit risk and in particular with NPLs.

The decline of NPLs slowed recently in the face of economic headwinds and uncertainties. Higher interest rates and higher prices are testing the capacity of the non-financial sector to service its debt. NPLs in some segments such as consumer credit have gone up, which now exceed levels attained during the COVID-19 pandemic, and early signs of deterioration are becoming visible in other segments of the loan book. Asset quality is likely to worsen further in the coming quarters. Due to the high inflation and interest rates levels and the current economic outlook, NPLs may further increase in the coming quarters. Particular attention will need to be paid to the real estate sector, given its sensitivity to interest rates and rising construction costs.

NPLs are not just a micro-supervisory issue. As relatively recent history shows, when stocks of NPLs grow large, they can become of a source of systemic risk for the real economy. As such, a macro-financial, or indeed, macroprudential angle is an important compliment to the usual supervision. But the issue goes beyond that. Banks played a fundamentally important role in financing our economies. We want capital to be deployed productively, for the good of our economy and our citizens. Indeed, one might even argue, when there are large stocks of NPLs, the roles played by banks in the monetary policy transmission mechanism can break down. More generally, it must be asserted that NPLs are not a problem reserved for the financial sector. Behind every bad loan is a household or firm whose role and contribution in the economy is hampered by that NPL. When NPLs arise, they need to be addressed by banks and the wider financial system. But from an economic perspective, we need also to think about solutions that help underpin growth and dynamism in our economies. Large stocks of NPLs are not conducive to that.

It is thus important to closely monitor NPLs' further evolution and be proactive to avoid that they become a prime concern. Early management of distressed loans will be important to contain the increase in NPLs and ensure banks are ready to cope with their potential increase.

The approach followed by supervisors since the outbreak of the pandemic towards credit risk assessment has been conducive to improving banks' risk controls, their classification of distressed borrowers and provisions, and should be continued to address the upcoming challenges.

In the current environment, I think it is important to take into account the risks arising from the upward shift in interest rates on banks' assets - as already mentioned in in my answer to question n. 30. I thus welcome that the ECB Banking Supervision carried out a targeted assessment of interest rate risk and credit spread risk. This thorough examination of sector-specific vulnerabilities was essential particularly in areas such as commercial and residential real estate lending and leveraged finance. This ensured that supervised banks were well equipped to deal with these risks when they materialised and allowed the banks to weather the turbulent environment following the US and Swiss banking sector turmoil in March this year. This forward-looking approach is key.

My experience at Bank of Italy thought me that supervisors have played a key role in pushing banks to reduce NPLs at a high but sustainable speed and to strengthen their capital positions. Italy is the country for which improvements in banks' balance sheets have been among the most remarkable: the annualized flow of new NPLs as of June '23 remained stable at a historical low level (around 1 percent) and the stock of net NPLs has been reduced more than 80 percent compared to the peak of 2015 (now at around at 1.5 percent of total loans).

33. How do you see the supervisory challenges for the ECB/the SSM from technological innovation in the financial sector? What is your view on the prudential treatment of crypto-assets and the use of tools based on Artificial Intelligence? Are risks arising from crypto-assets, in particular contagion risks to the banking sector, properly taken into account by the current supervisory framework? If not, what changes would you recommend?

Technological innovation presents opportunities but also risks for financial actors. On the one hand, innovation fosters competition, diversification and pushes financial institutions to enhance efficiency. On the other hand, technological innovation increases reliance on IT systems and third-party services, thereby pushing financial institutions to strengthen their cyber resilience to address increased risks stemming, for example, from cyber-attacks. Therefore, I welcome the Digital Operational Resilience Act (DORA, Regulation (EU) 2022/2554) that will strengthen and harmonise rules on digital operational resilience across the European financial sector also through the establishment of the new oversight framework for critical ICT third-party service providers. Against this background, ECB Banking Supervision will launch its first stress test on banks cyber resilience in 2024. Even though most banks have recently reported higher profitability, competition from digital champions and Big Tech also puts pressure on their business models and digital transformation strategies. In addition, as illustrated by the demise of SVB bank in the US, and the combination of digitalisation and social media pose new challenges for banks' risk management, namely for liquidity risk.

Thus, it will be important for the ECB Banking Supervision to identify and monitor the challenges for banks emanating from digitalisation and ensure that banks timely respond to them. For instance, ECB Banking Supervision has announced it will conduct targeted on-site inspections and reviews of specific aspects of banks' digital transformation strategies and use of innovative technologies.

As for crypto assets, I believe they currently pose little imminent risk to the financial system, or to the European banks given banks' limited exposure at this stage. But it is important to stay vigilant and to assure that the risks they pose are properly managed as crypto assets develop quickly and this poses a challenge for supervisors and regulators to keep pace with developments. Moreover, I believe that global cooperation is critical in this field to establish consistent regulatory standards and a level playing field across jurisdictions.

The Markets in Crypto-Assets (MiCA) regulation is an important step the European level: it addresses risks in the crypto system, ensure a high level of protection of retail crypto holders and integrity in crypto-asset markets, also promoting financial stability. At the same time, some crypto-asset related activities are still not covered by this regulation and more regulatory attention should be given to unbacked crypto-assets: they lack inherent value and show a high price volatility which makes them unfit to fulfil the means of payment or store of value functions of money. Hence, it will be important to continue working on these developments as they impact the work of the ECB in many aspects. I believe that the ECB oversight framework for payment instruments, payment schemes and arrangements (PISA) could be particularly effective, as it also covers digital payment tokens (e.g. crypto-assets used within a scheme and stablecoins), alongside already overseen payment schemes of other payment instruments.

As for the prudential treatment of banks' crypto-asset exposures, I welcome the BCBS standards adopted last year. Even if the standard is not legally binding for now, banks wishing to engage in crypto-asset related operations are expected to comply with the standard and to take it into account in their business and capital planning. This would help further reduce contagion risks between the banking sector and the highly volatile crypto-asset segment.

Regarding the use of tools based on Artificial Intelligence, I believe that they can provide advantages for banks by improving the services they can bring to the customers or by streamlining some processes. Nevertheless, ECB Banking Supervision will need to monitor as AI tools could pose some new risks for the banks. In this context, ECB banking supervision is already updating its methodological toolbox to identify risks related to the increased use of AI by the banks and I believe the ECB should continue to improve awareness of risks through further trainings to the supervisory community, providing input to the legislative process such as the European Commission proposal for an Artificial Intelligence Act, and by cooperating with international working groups.

34. What are your views on the integration of climate-related and environmental risk in banking supervision?

I welcome that the ECB Banking Supervision is now integrating climate-related and environmental (C&E) risks in its supervisory activities. Climate change is impacting economic growth and the stability of the financial system. Here one can distinguish between physical risks resulting from climate change such as extreme weather events, and transition risks, which is associated with the transition to a low-carbon economy. As all European banks are exposed to both these risks, it is commendable that C&E risks are now fully integrated in day-to-day supervision and are part of the ongoing dialogue with the supervised banks. ECB Banking Supervision has laid down expectations in the 2020 Guide on C&E risks, and subsequently conducted several exercises such as thematic reviews, deep dives and a climate stress test in 2022 to assess how banks are set up to deal with climate-related risks. The ECB has also been conducting economy-wide climate stress tests, which analyse the resilience of euro area firms, households and banks to different transition scenarios, and which show that there are clear benefits to acting early and decisively to address climate change risks.

As member of the Board, I supported the initiative undertaken by the Bank of Italy in this direction. Leveraging on its large supervision remit which includes both less significant banks (LSIs) and non-bank financial intermediaries, in April 2022, the Bank published its 'Supervisory expectations for climate-related and environmental risks', containing non-binding recommendations for all the intermediaries under the supervision remit. Since then, the supervisory dialogue has been progressively intensifying also based on the evidence that emerged from "ad hoc" thematic reviews. In 2023, all LSIs and non-bank financial intermediaries have been required to submit to the Bank of Italy their action plans to show what actions they are going to take in the next three years in order to align their business models with the supervisory expectation, encompassing also annual targets. The results emerging from the thematic reviews and the assessment of the action plans have been integrated in the ordinary supervision dialogue and in the yearly Supervision review and evaluation process; from now on possible specific supervision actions on the single intermediaries might be undertaken in case of significant delays in fulfilling the targets declared in the plans.

35. What are your views on the regulation of shadow banking entities? Do you see regulatory and supervisory loopholes that should be addressed by legislators in the short term?

A wide range of factors and structural changes in the global financial system over the past decade have increased the reliance on market-based intermediation. The non-bank financial intermediation (NBFI) sector has thus grown substantially and has become more diverse. As a result, the NBFI sector plays today a significant role in financing the real economy.

Nowadays, euro area banks' asset exposures to NBFI entities are considerable and, on average, account for about 9% of significant institutions' total assets. According to ECB's analyses, these asset-side exposures consist primarily of loans, with securities playing a more limited role. Moreover, large banks are more strongly linked to NBFI entities, as 80% of funding and about 90% of asset exposures are concentrated in fewer than 20 banks. The increasing interconnectedness between the NBFI sector and credit institutions implies that risks can spread across the financial system, which could adversely impact the financing of the real economy. There is a risk that the NBFI sector's risk taking can amplify such systemic risks, as shown in the financial market turmoil of March 2020, brought about by the COVID-19 shock.

Enhancing the resilience of NBFI is thus crucial to maintaining a stable flow of financing to the economy, reducing the necessity for extraordinary interventions by central banks, and minimizing adverse effects on the banking sector. I believe that this necessitates focusing on ensuring the availability of adequate liquidity and its efficient management during episodes of stress. If liquidity imbalances were to become extensive and widespread, they could potentially trigger financial instability. The Financial Stability Board (FSB) has conducted a careful review of how such imbalances may arise: they tend to emerge due to unexpected shifts in liquidity demand, an inadequate supply of liquidity during stressful periods, and various amplification mechanisms. These interactions can lead to forced asset sales and the transmission of financial stress to other segments of the financial system and the broader economy.

Against this background, I also believe that the ongoing work at the FSB should be further pursued with the aim of enhancing regulatory reporting and disclosure so to improve data availability needed to analyse the NBFI sector. Moreover, further FSB work is desirable to tackle issues related to liquidity preparedness to margin and collateral calls (especially in derivative and repo markets) and to liquidity mismatch in open-ended funds.

I also support the regulatory discussions which are currently ongoing between the European Banking Authority (EBA), the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB) on the interactions between banks and the NBFI sector. It is important to continue with these discussions and to coordinate at the international level, given the cross-border dimensions of the NBFI activities. Following these discussions, I think that improvements to the regulatory framework should be proposed, and one important element to consider will be to further increase transparency of and tools for large and highly leveraged entities.

On the supervisory side, I appreciate that the ECB Banking Supervision is carefully monitoring the counter-party credit risks of the supervised institutions, mitigating in this way the potential systemic risk stemming from the NBFI sector.

However, for the longer term, I believe that the regulatory framework for this sector should be strengthened and adopt a macroprudential perspective to mitigate financial stability risks, but also to account for the fact that NBFI can also represent a challenge for the transmission of monetary policy. The current regulatory landscape needs to better reflect the fact that credit intermediation is increasingly taking place outside the banking sector.

I thus support the views expressed in international fora regarding the need for tackling vulnerabilities within the NBFI by adopting of a comprehensive, system-wide approach.

The EU regulation currently in force, designed for addressing risks at micro-level, should therefore be reinforced to address the build-up of vulnerabilities at the system-wide level. In designing this system-wide approach, it is crucial to take into account the high heterogeneity within the NBFI sector.

Investment funds play an important role, but any new regulation should also take into account the concurrent role of the other non-bank entities (e.g. insurance companies, pension funds, financial companies and so on). In this regard, a good starting point to approach NBFI macro-prudential regulation could be to assess what the footprint of different entity types is in core financial markets, including those relevant for monetary policy transmission and financial stability.

36. *What is your view of the Fit-and-proper assessments? Should this instrument be further developed, and applied by the ECB?*

Well-governed banks are more resilient to adverse market developments. They manage their risks better and contribute to making our financial system safer and more stable.

ECB Banking Supervision already plays a gatekeeper role in this regard, but there is still room for improvement stemming from the different national applicable frameworks. ECB Banking Supervision has therefore advocated that fit-and-proper assessments of banks' managers can be conducted before managers take up their positions. This way supervisors can ensure that candidates meet the high standards of professional competence required of them. The agreement reached in the CRD6 negotiations on fit and proper marks an important improvement: it allows the ECB to engage the institutions in a dialogue on the suitability of their candidates for apical roles before such persons take up their position, ultimately contributing to strengthen the quality of banks' managers.

The rigorous supervisory approach adopted by the ECB Banking Supervision has indeed led to a substantial strengthening of banks' governance arrangements, through the early identification of weaknesses regarding the directors' suitability, the prompt request for remedy actions, the rejection of those individuals found inadequate for the role. Over time, efforts have been made to ensure an intrusive but streamlined approach, more risk-based and increasingly integrated with SREP analysis and findings. In order to increase efficiency, the ECB is also strengthening the supporting IT tools.

37. *How do you assess the implementation of the bank resolution mechanism in the EU? What specific steps would you take to close existing shortcomings? What are your views on 'too-big or interconnected to fail' institutions, savings and cooperative banks, and the*

overall issue of the profitability of the banking sector in the EU, and what is your view on the way forward for its architecture in order to fulfil the needs of the real economy and long term financing?

An effective framework for orderly bank resolution is essential to protect taxpayers, preserve financial stability and ensure the continuity of banking services critical to citizens and the real economy.

The EU bank crisis management framework has come a long way since the adoption of the Bank Recovery and Resolution Directive (BRRD) and the establishment of the Single Resolution Mechanism. The Single Resolution Board (SRB) and national resolution authorities have conducted extensive work to prepare for bank failures and have successfully resolved failing banks in the rare cases where this has been necessary.

There is still scope for further harmonisation of the resolution framework and for improving its efficiency. The first step should be for EU legislators to swiftly adopt the review of the crisis management and deposit insurance (CMDI) framework, which I strongly support (see my reply to question n. 38). Another important requirement is the operationalisation of the European Stability Mechanism (ESM)'s backstop to the Single Resolution Fund, which will increase the financial capacity of the Single Resolution Fund (SRF) when needed.

We must also draw the lessons from recent crises. First, while open-bank resolution has been the preferred resolution strategy for many banks, it has never been implemented in practice: thus, further work on the implementation of transfer strategies in resolution, as already taken up by the SRB, is necessary.

Secondly, our crisis management framework still lacks a mechanism for the provision of central bank liquidity in resolution, which is very much needed, as further illustrated by the recent crisis cases in other jurisdictions.

As regards too-big-to-fail institutions, EU rules ensure that our systemically important banks hold sufficient capital and bail-inable liabilities (i.e. minimum requirement for own funds and eligible liabilities - MREL) to absorb losses and be recapitalised in an orderly manner. The SRB is closely monitoring the build-up of MREL and the progress made on resolvability across all banks under its remit.

Bank profitability is essential for banking supervision and financial stability, as banks must have robust business models to remain profitable and thus well-capitalised in the long run. Since the sovereign debt crises, European banks had reacted to their lack of profitability by addressing their structural weaknesses and by coping with the prolonged low interest rate environment. They made large use of technology to adjust their business models, increased efficiency, reduced NPLs. As a matter of fact, only from 2022 has the European banking sector as a whole finally managed to realize good profits, mainly leveraging on the very fast increase in interest rates that translated into a strong growth of net interest margin. In a welcome reversal from the past trend in recent years, the normalisation of interest rate levels is currently improving banks' financial situation by increasing lending margins. However, it could also result in a deterioration in the credit quality of assets, which could be a drag on bank profitability in the future.

Beyond the current, very favourable juncture, European banks should keep strengthening their business model sustainability on a long-term basis, also in light of many challenges ahead due to the transition towards digitalization and sustainability.

Finally, I believe completing the banking union is both necessary and urgent to ensure that our banking sector can deliver the financing needed for households and businesses as well as for long-term investment in the EU's key policy priorities (see my replies to questions n.38 and n.42).

38. What are your views on the steps towards the completion of the Banking Union with a European Deposit Insurance Scheme? What are your views on the recent Commission proposals for a Crisis Management and Deposit Insurance (CMDI) framework? How do you see the current model of creditor hierarchy under the current Bank Recovery and Resolution Directive? What complementary measures would you take to reduce market fragmentation, reduce regulatory and supervisory arbitrage opportunities, maintain a level playing field, tackle ring-fencing and reduce risk most notably in the banking sector?

The establishment of a European Deposit Insurance (EDIS) scheme is an essential step for the completion of the banking union. I see EDIS as critical to achieve three key objectives of the banking union: first, to support financial stability by breaking the sovereign-bank nexus; second, to ensure the equal protection of all depositors regardless of their bank's country of establishment; and third, to foster cross-border integration in the banking sector, thus dampening the impact of country-specific shocks. It should also allow for a harmonised and integrated approach in the use of deposit guarantee scheme (DGS) funds for various crisis management tools, including preventive and alternative measures. While a hybrid model offering liquidity support to national DGS could be a first step, a fully-fledged EDIS with risk-sharing across the banking union should remain the ultimate aim.

I hope EU institutions can take up this important discussion again as soon as the legislative work on the CMDI package is finalised, and I welcome the European Parliament's strong commitment to advancing this project.

Regarding the CMDI package, I strongly support the aim of the Commission proposal to further harmonise and improve the efficiency of the current framework through a proportionate expansion of the scope of resolution, combined with a more effective use of industry-funded safety nets. Clearly, financial instruments issued by banks to meet the minimum requirement for own funds and eligible liabilities (MREL) should remain the first line of defence to limit moral hazard, although MREL should also remain proportionate to each bank's characteristics and the preferred resolution strategy. Still, subject to adequate safeguards, enhancing the possibility to use DGS funds in resolution, including to unlock access to the SRF, is critical to protect financial stability in cases where it would be put at risk by the bail-in of deposits. In certain cases, it will indeed be a more efficient use of DGS funds, and lead to better outcomes for taxpayers and depositors, if DGS funds are used to unlock access to the SRF and fund the bank's resolution, rather than let the bank go into liquidation because resolution is not feasible due to a lack of funding.

In this respect, I also support the Commission's proposal to introduce a single-tier depositor preference in the creditor hierarchy, which would facilitate the efficient use of DGS funds for a range of crisis management tools. The current super-preference given to DGS funds generally precludes their use for purposes other than a depositor pay-out, which is often not the best outcome for financial stability, the continuity of critical banking services and especially depositors' access to their funds. Moreover, it is the costliest outcome, in terms of depletion of DGS funds.

Let me also echo the ECB's Opinion in welcoming the CMDI's goal of enhancing the efficient management of smaller and medium-sized credit institutions across Member States in a standardized manner. However, it is essential that this broader scope for resolution is accompanied by sufficient resolution funding for these smaller and medium-sized credit institutions. Without improved access to funding, expanding the resolution framework's reach may become impractical. These credit institutions often heavily rely on deposits as their primary source of funding. Depending on local market conditions, they may encounter challenges in issuing other financial instruments that can effectively absorb losses or be converted into equity. Therefore, the measures proposed in the CMDI initiative, aimed at enhancing the capacity of DGS and resolution financing mechanisms to facilitate the resolution of smaller and medium-sized credit institutions, are indispensable and represent a necessary counterpart to the meaningful expansion of resolution tools for such credit institutions.

Finally, the establishment of the Single Supervisory Mechanism and the Single Resolution Mechanism has largely contributed to harmonising supervisory practices, reducing risk in the banking sector and ensuring a level playing field across the banking union. Further steps to complete the banking union, including EDIS and progress towards a more integrated single market for banking services (see also my reply to question no. 42), would further contribute to improving financial stability and reducing market fragmentation.

39. What risks related to liquidity and leverage in various sectors of the financial system do you see for financial stability and how should they be addressed by the ECB/the SSM?

Monetary policy normalisation is affecting the liquidity risk of financial intermediaries given that market competition for funding is increasing, while loan growth is slowing down. In addition, as demonstrated by the market turmoil this year, inadequate liquidity risk management and new trends in digitalisation can have a material impact on depositors' behaviour and on the stability of banks' liquidity and funding sources. As for liquidity, ECB Banking Supervision has announced that it is now collecting information on a weekly basis instead of a monthly basis. It has also announced that it will conduct detailed analyses of banks' liquidity and funding plans, following the high priority assigned to liquidity risk.

I believe it is important to keep a focus on banks' practices around asset and liability management governance and strategy, including their contingency planning and collateral optimisation strategies. I also think that counterpart credit risk management should be strengthened and that further work on the regulatory front should be undertaken. As I noted above, liquidity risk is a significant factor to consider, impacting not only banks but also other entities. For instance, following the banking sector stress seen in the United States and Switzerland in early March, investment funds exposed to relatively risky assets have faced significant investor outflows.

Turning to leverage, previous episodes of stress, including the turbulence witnessed in March 2020 and the strain observed in the UK gilt market during the autumn of 2022, provide clear examples of how non-bank financial institutions (NBFI) excessive leverage can magnify margin call pressures across the broader financial system – see also my answer to question n. 35. I believe that enhancing liquidity preparedness of the NBFI and contrasting the building up of excessive leverage represent absolute priorities. According to a recent FSB report, aggregate data suggest that there are pockets of high leverage in the NBFI sector. Furthermore, non-bank investors appear to be taking on increasing amounts of off-balance sheet financial leverage, and proxies suggest that aggregate synthetic leverage could be higher than average.

Zooming on the banking sector, I believe that the ECB Banking Supervision should carefully look into the risks stemming from leveraged finance. The 2023 stress test results showed that leveraged finance exposures carry a high degree of credit risk and market risk, which is exacerbated by adverse conditions. Banks that retained significant holdings of leveraged loans thus possess notable underlying vulnerabilities due to the associated risks tied to their counterparties and financial instruments. The risks of high volatility and of repricing in financial markets also remain important for them. Regarding risks linked to leverage transactions, I welcome that the ECB Banking Supervision has pushed the banks to comply with its expectations as laid down in the ECB guidance on leveraged transactions and that is actively assessing whether banks close their outstanding gaps with these expectations.

40. How do you see the role of the ECB/ the SSM in combating money laundering? How should money laundering risks be taken into consideration when the ECB assesses banks' viability?

The ECB's supervisory tasks exclude the anti-money laundering and countering the financing of terrorism (AML/CFT) supervision of banks. However, ECB Banking Supervision takes the prudential implications of money laundering and terrorist financing (ML/TF) risks very seriously, even if it has no direct responsibility in this area. In its supervision, the ECB considers the impact of ML/TF risks on the prudential profile of banks, as ML/TF risks pose a danger to the sustainability of banks and can seriously damage people's trust in the banking sector. Banks that struggle with ML/TF-related issues often suffer from structural deficiencies in their internal controls and governance arrangements, which do fall within the scope of ECB Banking Supervision.

I believe that it is important that ECB Banking Supervision should be in a position to take measures if the assessment of the information received from AML/CFT authorities raises prudential concerns, for instance in the yearly Supervisory Review and Evaluation Process (SREP). That is why an adequate information exchange with AML/CFT supervisors is absolutely needed. Multiple channels for exchanging information with national AML/CFT supervisors within the EU are already in place, such as the Agreement on information exchange between the ECB and the AML/CFT supervisors and observer role of the ECB in AML/CFT supervisory colleges that have been set up for all banks with cross-border operations within the EU. The ECB also contributes to the ongoing development of EBA guidance documents to further enhance cooperation with AML/CFT supervisors and to ensure a consistent consideration of AML/CFT aspects in SREP across the Banking Union.

Effective cooperation of prudential supervisors with Financial Information Units (FIUs) is also crucial. Seeking information from the FIU is particularly relevant for prudential supervisors to inform their assessment, for instance, in the processes for authorisation or proposed acquisitions of qualifying holdings. The importance of this kind of cooperation and information sharing in addressing ML/TF has been apparent to me in my experience at the Bank of Italy where I could observe it in place/in action given the Italian institutional setting that assigns the FIU's tasks to an independent unit within the Central Bank. Regardless of the AML institutional arrangement, I am deeply convinced that fostering information sharing between prudential supervisors, including ECB, and FIUs in the new European AML framework would greatly benefit the combat of money laundering.

The future EU-level AML Authority will be an important counterpart for the ECB and can play a significant role in simplifying the information exchange between AML/CFT and prudential supervisors and FIUs.

41. *Do you think that non-euro area Member States should strictly fulfil conditions, such as controlling money laundering risks effectively, demonstrating comparably stable property markets, controlling corruption effectively, before becoming members of the euro area and thereby members of the Banking Union?*

The accession to the euro area is subject to EU Member States meeting the four Treaty-based convergence criteria and the alignment of relevant national legislation. The regular convergence report by the ECB and the European Commission is crucial for assessing how well Member States meet the four convergence criteria. I highly value their work in monitoring the compliance of Member States with these criteria in the regular reports. These reports also monitor a number of the structural conditions required for a smooth participation in the euro area and the banking union. These so-called "other relevant factors" cover institutional quality and governance as well as the outcome of the macroeconomic imbalance procedure aiming at preventing macroeconomic and macro-financial imbalances.

Moreover, recent experience shows that also in practice, the ECB, the Commission and Member States preparing for euro adoption have taken a broad perspective in this process, e.g. by looking at macroprudential and structural policies. When a Member State adopts the euro it also joins the banking union, i.e. the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM). In the recent cases of Bulgaria and Croatia, it has proven beneficial that both countries entered into close cooperation with ECB Banking Supervision and thereby joined the SSM and the SRM, in parallel to their entry into the ERMII mechanism. ECB Banking Supervision conducted the required comprehensive assessment of the countries' banks in preparation for this step. Furthermore, Bulgaria and Croatia took a number of country-specific commitments before they entered ERMII. The fact that on 1 January 2023 Croatia successfully adopted the euro shows that a broad perspective on the convergence process can be particularly effective.

42. *Is deeper financial integration always consistent with the objective of financial stability? Do you believe potential cross-border bank mergers may reinforce the too-big-too-fail problem? Do you consider that deeper cross-border integration could help boosting the competitiveness of the EU banking sector? What should the strategy of the SSM be vis-à-vis the future of the European banking sector in terms of mergers and acquisitions, consolidation and 'national champions'? What should be the goals of the Capital Markets Union (CMU)?*

By promoting the availability of financial services under the same rules and conditions across the Union, financial integration facilitates households' and firms' access to funding and thus contributes to a smooth transmission of monetary policy and a more even economic development across countries. Through cross-border trade in financial services it also supports risk-sharing, thereby reinforcing the EU's resilience to shocks. The literature suggests that the level of risk sharing among the EU countries has been significantly lower not only than in the United States but also than between regions within EU countries such as Germany, France, Italy and, to a lesser extent, Spain. At the same time, it is imperative that the provision of financial services in the single market is subject to the same sound rules and supervisory scrutiny, including across borders, to prevent and rapidly detect the build-up of destabilising risks and their propagation across the wider financial system.

The EU has made significant progress in ensuring the soundness of the financial system since the global financial crisis, notably by creating the banking union. The Single Supervisory Mechanism ensures effective supervision of all banks across the banking union, and the Single Resolution Board has been able to swiftly resolve banks in close cooperation with the ECB as responsible banking supervisor. Yet in the absence of a completed banking union with a European Deposit Insurance Scheme, the European banking sector remains fragmented along national lines and bank lending continues to be affected heavily by local economic developments. While outside the prudential mandate of the ECB Banking Supervision, cross-border mergers can help in diversifying banks' risk exposures and thus support bank lending to sound borrowers in localised downturns. They can also enhance competition between European banks, incentivise cost reduction and reduce overcapacity, thus making European banks overall more competitive.

The capital markets union is highly complementary to these efforts. By further harmonising and strengthening rules for non-bank financial actors, it expands financing options available to businesses, increases opportunities for private cross-border risk-sharing, enhances integration and diversification of the EU financial system thereby supporting overall financial stability. By mobilising private investment and facilitating European firms' access to market-based funding, including for SMEs and innovative businesses, the capital market union is also instrumental in financing EU objectives, such as the green and digital transitions. Policies to achieve the capital market union, for example those to promote securitisation and the harmonisation of corporate insolvency rules are also beneficial to banks.

While we made some progress, it is important to fully implement the measures adopted with the 2020 CMU Action plan. A very positive step is the European Commission's proposal to create a European database of company information (ESAP, European Single Access Point), also including on a voluntary basis the data of unlisted SMEs, which will be a reference for investors. Another very relevant measure under discussion aims to make equity and debt neutral in terms of taxation, correcting the bias in favour of debt (similarly to what has been done in Italy with the measure *Aiuto per la crescita economica*, ACE). Above all, we need to aim at achieving ambitious goals, including strengthened supervisory convergence and greater harmonisation in the domains of insolvency legislation, company and tax laws.

43. How do you see the overdependence of Euro based derivatives in clearing houses based in the UK? Do you see an excessive concentration of risk in the City of London that we do not supervise effectively? What would be your recommendations in this area?

Central counterparties (CCPs) are critical market infrastructures that contribute to reducing and mitigating counterparty credit risk in derivatives markets. Systemically important CCPs thus have an essential role to play for financial stability, and key derivatives markets in EU currencies should be cleared mainly in EU CCPs to ensure proper oversight by EU authorities, including in crisis situations.

Therefore, I agree with the assessment shared by the Commission, the ECB, ESMA and the ESRB that overreliance on third-country CCPs for clearing services of systemic importance to the EU can pose risks for financial stability.

I see the Commission's proposal to institute an active account requirement for EU clearing members and clients to clear part of these derivatives at authorised EU CCPs as a sensible and effective way forward to reduce excessive exposures to third-country CCPs. Importantly, this requirement should be accompanied by quantitative thresholds to ensure a gradual but effective build-up of the EU's clearing capacity in these derivatives markets.

D. Functioning of the ECB and democratic accountability and transparency

44. What are your views on the current ECB policies with regard to the prevention of conflicts of interest within the ECB? Are any changes necessary?

The ECB should remain committed to upholding integrity, fostering sound corporate governance, and adhering to the most stringent ethical standards across every facet of its operations. Among these ethical principles, the proper management of conflicts of interest is arguably the most critical. Preventing conflicts of interest serves as a foundational pillar that supports and reinforces numerous other aspects of a well-functioning ethical framework. I thus welcome the steps taken by the ECB in the past years to reinforce its framework for the prevention of conflicts of interest.

In particular, I very much value the robust rules that have been established and periodically updated - also in response to invitations from the European Parliament - for governing interactions with external parties. Exchanging views with all stakeholders is important for delivering on the ECB's mandate. At the same time, it is important to have a solid governance framework to govern such interactions, especially when it comes to interactions with financial market participants. The single Code of Conduct for high-level officials represents a key element of the ECB's good governance framework and I very much welcome that basically the same principles apply to ECB staff - as mirrored in the ECB Business Rule Book. At the same time, acting in an ethical manner goes beyond a mere compliance with law, rules and policies. It is a commitment guiding people's behaviour and driving them to make the right choice even if we are faced with challenges or put under pressure. This is why I believe in the importance of dedicated training courses on ethical issues, that could provide guidance on how to make ethical decisions in people's day-to-day professional activities and interactions.

Going forward, I think the ECB should consistently evaluate whether its framework remains at the forefront of best practices. It did so early this year, by introducing stricter rules applying to private financial transactions of high-level officials and should continue to do so. Moreover, the ECB should actively participate in the ongoing interinstitutional discussions on the project of establishing a joint EU ethics body. While over the years the ECB has built a strong ethics framework that corresponds to its specific needs and conduct risks, it is important that this framework remains aligned to that of other EU institutions.

45. How do you assess the accountability framework of the ECB towards the European Parliament, in particular taking into account the recent arrangements in the form of an *exchange of letters on accountability in the area of central banking?*

I believe that the ECB's accountability is the necessary counterpart to its independence. The European Parliament acts as a bridge between the ECB and the citizens of the Union – and the ECB benefits from its interaction with the Parliament.

I understand that the accountability relationship between both institutions has evolved in line with greater demands for scrutiny. For example, the frequency of interactions has increased, new dialogue formats have been created, and existing formats improved. I believe that the recent arrangements between the ECB and the European Parliament in the form of an Exchange of Letters are another testimony to the strong relationship between both institutions. By formalizing the accountability practices, the recent arrangements promote effective cooperation between the ECB and the European Parliament which I am committed to furthering. The Exchange of Letters also serves as a valuable tool for enhancing communication on the ECB's accountability practices, fostering greater awareness of the ECB as an institution that acts for the benefit of all EU citizens and regularly listens and responds to their representatives. The latter is a critical aspect, especially during periods of elevated inflation like the current one.

Finally, let me emphasize that, if confirmed as a member of the ECB's Executive Board, I would be very pleased to engage with ECON members as part of the accountability channels, notably through ad hoc exchanges on matters that I would be responsible for at the ECB.

46. In your opinion, what role should the European Parliament play in the next ECB strategy review in 2025?

Regular reviews of the ECB's monetary policy strategy are extremely important to ensure that the strategy remains fit for purpose, given the changing economic environment. Hence, I look forward to the next review, currently planned for 2025 - see my answer to question n. 16.

I believe that the European Parliament is a key counterpart in the listening and outreaching exercise in the context of the ECB's strategy review. This is because its views, also reflecting those of EU citizens, are very valuable for conducting the review and should be adequately considered.

Therefore, I would very much welcome the continuation of the approach followed during the last review, where Members of the European Parliament could share their priorities and contributions with the ECB throughout the review process so that they could be adequately considered. The regular channels of interactions between the ECB and the Parliament, notably the Monetary Dialogues and the Parliament's own-initiative report on the ECB annual report, seem a natural avenue through which views could be communicated. I would also be in favour of the ECB organizing a dedicated session with ECON members in Frankfurt to discuss the strategy review and I would personally stand ready to meet ECON Coordinators and members bilaterally for further exchanges of views. In general, you could count on me in listening carefully to your suggestions and reflecting them in my personal contributions to the strategy review.

47. *What do you think about the fact that the Council in the past once ignored the opinion of the European Parliament regarding the appointment of a member of the Executive Board of the ECB? Will you accept your appointment as Executive Board Member if the European Parliament were to vote against it?*

The European Parliament plays a fundamental role in ensuring the legitimacy of the ECB. As I mentioned in my previous answers, accountability to the European Parliament is the necessary counterpart to the ECB's independence. Your opinion on my appointment is an essential part in the appointment process and I deeply respect your perspective. It is my hope that you will fairly assess my competences, experience, and views as presented in this questionnaire and the upcoming hearing, which I am very much looking forward to.

With regards to the appointment process, the procedure and respective roles and competences of the institutions involved are outlined in the Treaties. It is not for me as a candidate to take a view on how the Treaties regulate the appointment procedure itself or on the interaction among the concerned institutions. I hope that all institutions involved will come to agreement in the interest of the EU.

48. *What will the ECB concretely do to have gender-balanced shortlists for ECB top positions in the future and enhance overall more gender diversity in the ECB, given that at present only two out of 26 Members of the ECB Governing Council are female? How do you personally intend to improve gender balance within the ECB? When do you expect first results of your actions in this regard?*

A diverse workforce promotes diverse perspectives, fosters more equitable decision-making, and contributes to a fair and inclusive institution where all voices are heard and valued. Diversity and inclusiveness also benefit the policies of central banks, ensuring more robust monetary policy decisions by taking all perspectives into account. As an institution serving all citizens of Europe, achieving gender balance in the ECB is therefore vital, and I fully support the ECB's efforts in this direction so far.

In my previous roles, I have been committed to driving transformative changes in the institution I worked in. The Bank of Italy started tackling gender diversity years ago, by adopting multi-year Strategic Plans and creating a Diversity Manager responsible for promoting inclusion policies and women's professional growth.

However, there is no quick fix to improving gender balance – with imbalances common across central banks, the field of economics, and the wider industry. Tackling the imbalance requires an approach that supports gender balance in all areas of the bank and at all levels of experience, ultimately building a pipeline of measures to achieve balance across the entire institution. The ECB's Scholarship for Women is an excellent initiative in that regard, bringing the ECB closer to talented students and building a pool of potential future female central bankers. We must also ensure that we continuously search for unconscious biases, in particular in our communication. At the Bank of Italy, for example, we studied our vacancy notices for such biases that could decrease the likelihood of women applying. A balanced gender composition in recruitment panels is a further step in that direction.

We must then also support women once they are within our institution, from trainees to senior managers. Flexible work arrangements and childcare structures are examples of benefits that contribute to ensuring a work-life balance for all staff, notably for balancing personal and family life with a demanding work environment. A network for female leaders, which I understand already exists at the ECB, also supports achieving balance in senior positions.

At the Bank of Italy, the results of our efforts were tangible: the rate of women with a managerial role reflects the percentage of women in the overall staff. More than 31 percent of managers are now women, in line with our 2022 target.

On the ECB's Governing Council, the imbalance between genders is largely outside of the ECB's own control. While the ECB should publicly advocate for balance in the Governing Council, the responsibility is with governments to nominate more female candidates. I would personally very much welcome more nominations of qualified female candidates for all top positions in institutions and government.

Diversity is close to my heart also in a broader sense. I firmly believe that a diversity of perspectives creates the best outcomes. Harnessing this doesn't just require welcoming a diversity of nationalities, abilities, backgrounds, ethnicities, gender, gender identities and sexual orientations. Without inclusion, these diverse views will not be heard. To serve all people of Europe, the ECB must not just listen to all stakeholders in society. It must also listen carefully within, giving all ECB staff a stage to contribute to its policies with their individual perspective and talents. This enables us to develop inclusive policies, a focus we have emphasized in the High-Level Task Force on digital euro to design a payment instrument that would not leave anyone behind.

At the Bank of Italy, we have addressed decisively the well-being and inclusiveness of all our staff, especially those who identify themselves as belonging to a minority, disadvantaged or underrepresented group. I am aware that the board and the top management play a key role in this challenge, both in the decisions they are involved into and personally; in this vein I took the responsibility to give voice to deaf colleagues at the Bank of Italy as executive sponsor of their employee resource group.

49. *How do you see possible improvements to the ECB's accountability vis-à-vis the European Court of Auditors (ECA) in terms of its operational efficiency? Where do you draw the line for the ECA's mandate?*

Investigations and audits by the European Court of Auditors (ECA) are an important contribution to enhancing European governance, policies and their implementation.

With regards to the ECB, it is important to know that while the ECA has an all-encompassing mandate to audit fully European institutions, the Treaty limits the ECA's mandate to audit "the operational efficiency of the management" of the ECB. The ECB's operational efficiency is essential to ensure that it can achieve its mandate in the best possible way, and it is therefore commendable that this undergoes scrutiny by the ECA.

As I mentioned in my answer to question n. 1, in my capacity as Deputy Governor, I presided over the introduction of multi-period budgeting in the Bank and of systems for cost forecasting and for computing the unit costs of the Bank's outputs and activities. I also scaled up the Bank's activities by augmenting its traditional administrative role centred on expense reporting and compliance controls with a sharper focus on analysing and forecasting costs. I have designed and implemented a new risk-based control system aimed mainly at organizational learning. Finally, I introduced new tools for analysing and controlling travel costs and related allowances, as well as for managing staff transfers to the Bank's branches by standardizing and outsourcing the service thereby increasing transparency and reducing costs.

If appointed to this position, I would be committed to maintaining a good cooperative relationship with the European Court of Auditors and respect their mandate to audit the ECB on matters of operational efficiency. I would also welcome further interaction with the European Parliament on the findings of such ECA audits in the context of the accountability relationship.

50. *What will be your personal approach to social dialogue at the ECB?*

As an institution with an important mission for the wellbeing of citizens, and as an institution representing European values, the ECB must be able to continuously transform. As I have already outlined, I believe that in order to create the best policies for all European citizens, diversity and inclusion within a policymaking institution are central, since they ensure a wide range of perspectives and robust policies. Let me provide an example for the importance of hearing all views. Academics have been warning about the severity of climate change for decades. But policymakers largely ignored these less prominent voices. If we had paid more attention to their foresightful warnings, we would be much further along in the fight against climate change today.

I have therefore always believed in fostering an environment where challenging views are welcomed, and not feared. My diversified work experience has taught me that this is particularly important to navigate uncertain times. To listen to diverse views within the ECB and take them into account, there must be ample opportunity for open and constructive dialogue with staff representatives. By engaging on their concerns and needs through several channels – not only through conversation with individuals, but also through targeted surveys and dialogue with staff representatives – an institution should give room for all opinions to be heard and work to ultimately provide the best possible working environment, allowing its staff to best apply their talents.

At the ECB, work is undoubtedly demanding. And in order to deliver their best work, each staff member will have their own requirements, which we must try to accommodate as much and as flexibly as possible. A sufficient degree of flexibility of working time and location are major dimensions, and I understand the ECB has already put in place such policies, which I strongly support. These allow staff to better balance family and career, for example, but also account for the transformative change in working habits that we have all experienced during the pandemic.

A fulfilling and healthy work-life balance further necessitates having conversation on a wider range of well-being topics. Finally, we must be able to provide staff with attractive career progression prospects, with equal opportunities for all backgrounds and career stages. I have personally supported these efforts in all my past roles and would support them at the ECB.

As Member of the board of the Bank of Italy I have always pursued a constant dialogue with trade unions on all matters related to employees, including wellbeing of employees and careers progression prospects. For instance, in December 2021 this dialogue brought to the introduction of a hybrid way of working, in which staff can work either in the office or remotely, with a view to balancing family and working life.

INFORMATION ON ADOPTION IN COMMITTEE RESPONSIBLE

Date adopted	9.10.2023
Result of final vote	+: 30 –: 3 0: 2
Members present for the final vote	Rasmus Andresen, Stefan Berger, Gilles Boyer, Markus Ferber, Jonás Fernández, José Gusmão, Michiel Hoogeveen, Danuta Maria Hübner, Stasys Jakeliūnas, Othmar Karas, Billy Kelleher, Philippe Lamberts, Aušra Maldeikienė, Pedro Marques, Siegfried Mureşan, Denis Nesci, Piernicola Pedicini, Eva Maria Poptcheva, Evelyn Regner, Antonio Maria Rinaldi, Dorien Rookmaker, Irene Tinagli, Johan Van Overtveldt
Substitutes present for the final vote	Gianna Gancia, Eider Gardiazabal Rubial, Eugen Jurzyca, Margarida Marques, Fulvio Martusciello, René Repasi
Substitutes under Rule 209(7) present for the final vote	Alessandra Basso, Marco Campomenosi, Carlos Coelho, Gabriel Mato, Sándor Rónai, Željana Zovko