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| European Parliament2014-2019 | EP logo RGB_Mute |

Plenary sitting

<NoDocSe>A8-0144/2019</NoDocSe>

<Date>{01/03/2019}1.3.2019</Date>

<TitreType>REPORT</TitreType>

<Titre>on the Council recommendation on the appointment of a Member of the Executive Board of the European Central Bank</Titre>

<DocRef>(05940/2019 – C8‑0050/2019 – 2019/0801(NLE))</DocRef>

<Commission>*{ECON}*Committee on Economic and Monetary Affairs</Commission>

Rapporteur: <Depute>Roberto Gualtieri</Depute>

PR\_NLE\_MembersECB

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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

(05940/2019 – C8‑0050/2019 – 2019/0801(NLE))

(Consultation)

*The European Parliament*,

– having regard to the Council’s recommendation of 11 February 2019 (05940/2019)[[1]](#footnote-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 (C8‑0050/2019),

– having regard to Protocol No 4 on the Statute of the European System of Central banks and of the European Central Bank, and in particular Article 11.2 thereof,

– having regard to Rule 122 of its Rules of Procedure,

– having regard to the report of the Committee on Economic and Monetary Affairs (A8-0144/2019),

A. whereas, by letter of 14 February 2019, the European Council consulted Parliament on the nomination of Mr Philip R. Lane as Member of the Executive Board of the European Central Bank for a term of office of eight years, with effect from 1 June 2019;

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

C. whereas the committee subsequently held a hearing with the nominee on 26 February 2019, at which he made an opening statement and then responded to questions from the members of the Committee;

D. whereas notwithstanding the numerous requests made by the European Parliament to the Council to readdress the lack of gender balance within the ECB Executive Board, the Parliament deplores that the European Council has not taken this request seriously and demands that this request is respected for the next nomination; whereas women continue to be underrepresented in executive positions in the field of banking and financial services; 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 Mr Philip R. Lane 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 VITAE OF MR PHILIP R. LANE

**CURRICULUM VITAE: PHILIP RICHARD LANE January 2019**

Personal Information

Date of Birth: 27th August 1969

Citizenship: Ireland

Education

PhD, Economics, Harvard University, 1995.

A.M., Economics, Harvard University, 1993.

B.A. (Mod.) (Econ.), First Class Honours and Gold Medal, Trinity College Dublin, 1991.

Career Appointments

Governor of the Central Bank of Ireland, 2015-.

Whately Professor of Political Economy, Trinity College

Dublin, 2012-2015.

Professor of International Macroeconomics, Trinity College

Dublin, 2004-2012.

Associate Professor of Economics, Trinity College Dublin,

2000-2004.

Lecturer in Economics, Trinity College Dublin, 1997-2000.

Assistant Professor of Economics and International Affairs,

Columbia University, 1995-1997.

Selected Professional Activities

Chair, Advisory Technical Committee (ATC) of the European Systemic Risk

Board (ESRB), 2017-.

Chair, ESRB High-Level Task Force on Safe Assets, 2016-2018.

Chair, Economic Statistics Review Group of the Central Statistics Office,

2016.

Chair, Advisory Scientific Committee (ASC) of the European Systemic Risk

Board (ESRB), 2015.

Co-Chair, Joint ATC-ASC-FSC ESRB Task Force on Macroprudential Issues and

Structural Change in a Low Interest Rate Environment 2015.

Director of International Macroeconomics and Finance Programme, Centre for Economic Policy Research (CEPR), 2015; CEPR Research Fellow, 2002-; CEPR Research Affiliate, 1997-2001.

President, Irish Economics Association, 2012-2014.

Member, Royal Irish Academy, 2007-.

Member, Committee on International Economic Policy and Reform (CIEPR),

2012-2015.

Member, Bellagio Group, 2010-2015.

Member, ESRI Council, 2010-2016.

Founder, The Irish Economy Blog, 2008-.

Member, Academic Advisory Panel, Slovak Budget Council, 2013-2015.

Member, National Statistics Board, 2009-2013.

Member, ECB Shadow Council, Handelsblatt, 2005-2007.

International Research Fellow, Kiel Institute of World Economics, 2005-.

Member, External Review Committee (Bank of Finland 2004, European Central

Bank 2010/2011, Central Bank of Ireland 2011/2012, Bank of Israel 2012)

Academic Consultant (Primary Activities):

European Central Bank (2006-2007, 2014-2016); Bank for International Settlements (2015); Bank of Portugal (2015); International Monetary Fund (2014); World Bank (2006-2007, 2011, 2014-2015); Monetary Authority of Singapore (2013); European Commission (2012-2013); Federal Reserve Board (2013); New Zealand Treasury (2010-2011); Asian Development Bank (2009-2011);

Oireachtas Joint Committee on Finance and the Public Services (2010); OECD (2009-2010); SIEPS (2009-2010); NESC (2009); ESRI-Japan (2007-2009);

Sveriges Riksbank (2005-2006); National Competitiveness Council on Price and Wage Competitiveness (2004); Department of the Taoiseach (2002).

Occasional legal consultant; occasional speaker at professional conferences.

Selected Honours, Awards and Grants

Royal Irish Academy: Gold Medal in the Social Sciences, 2015.

Bhagwati Prize (joint with Gian Maria Milesi-Ferretti), 2010.

ECB Lamfalussy Fellowship, 2004-2005.

German Bernacer Award in Monetary Economics, 2001.

Barrington Prize 1997-1998.

NSF-sponsored Harvard-MIT Research Training Group in Positive

Political Economy Fellowship, 1994-1995.

John F. Kennedy Fund Scholarship, 1994.

Harvard Graduate Student Fellowship, 1991-1995.

Gold Medal, Whateley and Bastable prizes in Economics, Trinity

College Dublin, 1991. First-class degree and top-ranked student in economics degree examinations.

Foundation Scholarship, Trinity College Dublin, 1989. Top-ranked student in scholarship examinations.

Entrance Exhibition, Trinity College Dublin, 1987.

Grants: Irish Research Council, Institute for New Economic Thinking, Fondation Banque de France, NORFACE, Royal Irish Academy

Academic Profile

Main research areas: international macroeconomics; European monetary economics; financial globalisation; cyclical behaviour of fiscal policy, the Irish economy.

Published in: Journal of the Statistical and Social Inquiry Society of Ireland, Journal of International Economics, Pacific Economic Review, Fiscal Studies, Scandinavian Journal of Economics, International Journal of Central Banking, National Institute Economic Review, World Economics, Economic and Social Review, Open Economies Review, Journal of International Money and Finance, New Zealand Economic Papers, European Economic Review, Moneda y Credito, World Economy, Journal of Economic Perspectives, International Finance, IMF Economic Review, Nordic Economic Policy Review, American Economic Review, Journal of Money, Credit and Banking, Journal of the Japanese and International Economies, Review of Economics and Statistics, Economic Policy, ,The Economic Journal, Journal of Public Economics, NEER Macroeconomics Annual, Oxford Economic Papers, Canadian Journal of Economics, Journal of Development Economics.

ANNEX 2: ANSWERS BY MR PHILIP R. LANE TO THE QUESTIONNAIRE

**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 been Governor of the Central Bank of Ireland since late 2015. In addition to my role on the European Central Bank (ECB) Governing Council, I lead an organisation of about 2000 people that is responsible for national central banking functions and acts as the national competent authority in the supervision of credit institutions, insurance companies and investment firms, while also being the securities and markets regulator and the national financial conduct authority. The Central Bank of Ireland is also the national macroprudential authority, the national resolution authority and the operator of the national deposit insurance system. This broad-ranging mandate means that I have had direct involvement in a wide array of regulatory matters, in addition to my central banking duties.

From 1995-2015, I was an academic economist, with a research focus on financial globalisation and European monetary integration. The empirical nature and policy focus of my research generated many collaborations and interactions with policy institutions since the mid-1990s, including the ECB, the European Commission, the International Monetary Fund, the OECD and the Bank for International Settlements(BIS). In 2001, I was honoured to be the inaugural recipient of German Bernacer Prize for “outstanding contributions to European monetary economics.”

Throughout my career, I have made extensive contributions on the macro-financial implications of monetary union. This included a series of articles from 1996-1998 on the macroeconomic challenges facing Ireland under monetary union; many articles on the impact of monetary union on the growth in cross-border financial flows and external imbalances; and two major review articles (2006, 2012) on the euro area for the Journal of Economic Perspectives, the flagship policy journal of the American Economic Association. The 2006 article outlined the risks to the stability of the euro area from a period of financial distress and laid out the types of interventions that would be required in such a scenario.

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

No.

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

My steadfast conviction is that monetary union can provide a strong platform for stability and prosperity across Europe. By fulfilling its mandate, the ECB has a central role in underpinning the success of the monetary union. As an executive board member, my primary aim will be to ensure that the ECB delivers on its mandate, as laid down in the EU Treaties. In addition, it is vitally important that executive board members build general trust in the ECB as an institution that serves the European public interest. Internally, executive board members should maintain an organisational culture that fosters excellence and provides a fulfilling work environment for its staff.

**B. ECB Monetary Policy**

**4. How should the ECB conduct its monetary policy in the current macroeconomic conditions? How do you see the ECB’s performance regarding the achievement of its primary objective of maintaining price stability?**

The ECB should conduct its monetary policy in the current macroeconomic conditions in line with its primary mandate to maintain price stability for the euro area, as laid down in the Treaty. At an operational level, this is defined as maintaining “inflation rates below, but close to, 2 percent over the medium term.” By delivering on this mandate, the ECB can enable the people of Europe to make economic and financial plans in a stable monetary environment, while ensuring that firms and investors can focus on addressing core business challenges without diverting resources to manage monetary instability.

The ECB was broadly successful in meeting its price stability mandate until the financial crisis using its standard monetary policy instruments. Since then, the pursuit of this objective has required the adoption of unconventional measures. In my assessment, the current strategy - that combines: (a) the negative deposit rate at minus 40 basis points; (b) the asset purchase programme (APP); (c) forward guidance on interest rates and reinvestments; and (d) operations such as the targeted long-term refinancing operations (TLTROs) - has been effective in providing the monetary accommodation that is required in order to foster economic recovery, anchor inflation expectations, eliminate deflation risk and, over time, ensure that inflation is on a sustainable path back to the ECB’s aim .

The decisions on the recalibration of the measures in December 2015, March 2016, December 2016, October 2017 and December 2018 were based on readings of the incoming economic and financial data (vis-à-vis both the euro area and the broader global economy), together with assessments of the effectiveness and limitations of the various possible monetary policy instruments. This blend of quantitative analysis and the deployment of the economic models that are necessary to evaluate the different policy options has enabled the Governing Council to make its decisions in a rigorous, data-driven manner that is also well understood by market participants. The ECB should continue to conduct monetary policy in this manner.

**5. How would you respond to the criticism of low interest rates and its effects? How do you see the balance between unintended effects of the ECB’s interest rate policy and the convergence towards the envisaged medium-term inflation rate?**

The ECB seeks to maintain price stability over the medium term. In turn, medium-term price stability is an important foundation for strong economic performance by reducing the uncertainty facing firms and households.

The current policy package is a proportionate response to the post-crisis conditions it has faced in which deflationary pressures were emerging and the scale of the crisis had already pushed interest rates to low levels. It is clearly important to monitor the possible side effects from accommodative monetary conditions in relation to financial stability risks. Moreover, the macroprudential policy toolbox is available to contain such risks.

In relation to the impact on the distribution of income and wealth, the positive contribution of monetary accommodation to the reduction in unemployment (and higher wages) is highly salient. In addition, just as monetary accommodation boosts asset prices, there is an offset during phases of monetary tightening, such that it is important to recognise the difference between temporary and permanent distributional shifts.

**6. What is your view on the heterogeneity of monetary conditions and access to credit across the euro area and its impact on unitary monetary policy of the ECB?**

Lending rates for households and non-financial firms have declined significantly since 2014. Cross-country heterogeneity of lending rates has markedly decreased. Borrowing conditions continue to improve: the survey on the access to finance of enterprises (SAFE) shows that SMEs continued to indicate improvements in the availability of external sources of finance, including a higher willingness of banks to extend credit.[[2]](#footnote-2)

These more accommodative financing conditions have in turn supported the recovery in loan growth since 2014, which has continued recently. Loan growth to non-financial corporations (NFCs) (4 per cent year on year in December 2018) and households (3.3 per cent year on year in December 2018) reflects the pass-thorough of monetary policy measures.[[3]](#footnote-3) Demand for loans from firms and households has also continued to increase in Q4 2018 and provides ongoing support the recovery in loan growth.[[4]](#footnote-4) This increase was mainly driven by the low general level of interest rates, inventories and working capital, M&A activity, favourable housing market prospects and consumer confidence.

Overall, in recent years modest debt financing growth, solid economic growth and the recovery of asset process, also supported by monetary policy accommodation, has facilitated the necessary deleveraging of the corporate sector at euro area level. The NFC deleveraging process stalled however in 2018 as reflected in a minor increase in NFC leverage and a large stock of debt continues to weigh on the sector.[[5]](#footnote-5)

At a more general level, it is important to recognise that a common monetary policy does not guarantee identical credit conditions across the euro area. Rather, credit conditions also depend on local risk premia, the local level of competitive pressure in the domestic financial system and institutional factors such as the capacity of the legal system to deal with problematic loans.

**7. Disparities in economic performance between the core and the periphery of EMU have increased over the past decade. Looking ahead, several EU member states are preparing to join the euro area. How do you expect to avoid further divergences between euro area member states over the coming decade considering that several candidate states have weaker economies? What is the preferred economic scenario of euro area enlargement?**

There is no specific economic scenario for euro area enlargement. All EU Member States without an opt-out are expected to adopt the euro sooner or later. When this will occur will depend on two factors: first, the national euro adoption strategies, and second, readiness to adopt the euro as assessed on the basis the convergence criteria laid down in the EU Treaties.

The ECB and the European Commission regularly assess the progress made by each non-euro area Member State towards fulfilling the Treaty-based criteria required for euro adoption, as articulated in the Convergence Reports. One criterion concerns the participation of a Member State for at least two years in the exchange rate mechanism (ERM), the ERM II, without devaluing against the euro. There is by now a consensus that, for each applicant Member State, such participation should be decided on the basis of three factors: first, taking due account of the lessons from the euro area crisis; second, paying due attention to the fact that introducing the euro now also means joining the banking union; and third, implementing all the country-specific policy measures that allow for smooth participation in ERM II and, later on, the euro area.

In addition, it is important to recognise that much has been learned from the boom-bust cycles experienced during the first decade of the euro. In particular, it is essential that national fiscal and macroprudential policies contain divergences in financial cycles across countries.

**8. How do you see the sequencing/timing of ECB monetary policy normalization, also given the international context? Which effect do you expect the re-investment strategy of the APP to have on the markets? How will this affect the toolkit of monetary instruments if the overall conditions deteriorate?**

As regards future monetary policy steps, our forward guidance both on policy rates and reinvestment is very clear. Our policy is data-dependent and will depend on the inflation outlook. In this regard, the degree of accommodation will be determined by what is needed to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2 percent over the medium term. Our assessment of the effectiveness and impact of policy instruments takes into account our readings of both domestic and international economic and financial data.

The reinvestment of the sizable stock of assets reinforces the continued provision of significant monetary policy support through our forward guidance on interest rates. We will continue our reinvestment policy for as long as necessary to ensure that inflation continues to converge sustainably towards our objective.

We have sufficient options available in our monetary policy toolkit to react with the adequate monetary stimulus in case it would be necessary.

**9. How will you ensure transparency regarding the implementation of the Asset Purchase Programme? Do you agree that more transparency could be provided on ABSPP and CBPP3?**

When designing monetary policy instruments or the strategy for their implementation, we must always balance effectiveness and transparency. In the cases of the ABSPP and CBPP3, the ECB is already highly transparent and publishes a considerable amount of information including: monthly Eurosystem holdings, net purchases and the split between primary and secondary market purchases.

The disclosure of detailed data on the securities held under the various programmes needs to be weighed against the negative consequences that undermine the effectiveness of the programmes. For some APP programmes, these can expected to be contained. This is why for the CSPP and PSPP the degree of transparency is currently very high, also considering that securities bought under those programmes are available for securities lending purposes. For other programmes, additional disclosure may result in market participants drawing inferences about the eurosystem holdings and result in participants adjusting their behaviour based on this information. Moreover, it needs to be taken into account that publishing additional data could distort competition and compromise the integrity of the market.

**10. What are the conditions that need to be fulfilled to manage an interest rate increase without disruptive effects on sovereigns and markets? What of this lies in the remit of the ECB and where do you see the responsibility of Member States and market participants?**

We continue to expect ECB interest rates to remain at their present levels at least through the summer of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2 percent over the medium term. It is true that the incoming information has continued to be weaker than expected on account of softer external demand and some country and sector-specific factors. But our monetary policy stance remains appropriate for two reasons. First, very accommodative financing conditions, favourable labour market dynamics and rising wage growth continue to support the ongoing economic expansion and thus our confidence in the continued convergence of inflation towards our aim. Second, our monetary policy remains highly accommodative through our forward guidance on policy rates and the reinvestments.

In terms of the conditions that need to be fulfilled, our approach is two-fold. We use a date-based component – “through the summer” - and we also have a state-dependent element – “for as long as necessary to ensure the continued sustained convergence of inflation”.

In terms of the role of market participants, the state-based leg of our rate forward guidance provides that markets read the economy and adjust their policy rate expectations accordingly. This adjustment in rate expectations aligns market interest rates with how the market reads our reaction function. The state-based component also ensures that a weakening outlook is reflected in more supportive forward interest rates and, hence, easier financing conditions. Our forward guidance on rates is further reinforced by the reinvestments of the sizeable stock of acquired assets, in that we have linked the intended reinvestment horizon to the timing of rate lift-off. This strengthens the impact of our rate guidance on financial conditions, as market expectations for the reinvestment horizon evolve in line with expectations for the date of rate lift-off.

Member States have clear responsibilities *inter alia* with regard to national fiscal policies, the prudent management of which can provide an important stabilising factor in case of a downturn, as well as their commitment to the euro and completing the EMU, which ensure trust in the currency and make the euro area as a whole more resilient to shocks.

**11. How in your view can the ECB contribute to economic growth and full employment while fully complying with its primary objective to maintain price stability? What are in your view additional monetary policy measures that would improve the positive effects of monetary policy on the real economy? Which role do structural reforms in the Member States play for monetary policies and vice-versa?**

The primary objective of the Eurosystem and of the single monetary policy is maintaining price stability, as laid down in the Treaty on the Functioning of the European Union, Article 127 (1). Monetary policy can affect real activity in the shorter term. While poorly-executed monetary policy can harm long-term performance by generating excessive volatility, long-term living standards ultimately depend on non-monetary determinants such as productivity.

Having said this, our mandate is to deliver price stability in the medium term and the length of the medium term varies with the shocks that may hit the economy over time. When a shock hits aggregate demand, so that a negative shock causes both an economic slump and inflation undershooting, the horizon is shorter and our strategy directs us at a more forceful monetary policy response. Restoring price stability in this case also helps to close the output gap. When the shock hits supply – for example an energy price shock that drives inflation to overshoot the objective and output to slump – there is a trade-off between inflation and growth. In this case the policy relevant medium-term horizon is longer and our strategy requires patience. It follows that we take into account both economic growth and unemployment in calibrating our monetary policy response to the changing state of the economy, even though our primary objective is expressed in terms of price stability only.

Policies that spur innovation and investment, enhance economic resilience and the growth potential of the economy are important in determining the long-run growth potential of the euro area economy and the long-run rate of return. As such, there is a clear relationship between the growth potential of the economy and the appropriate medium-term level of interest rates.

In the other direction, the successful delivery of price stability over the medium term reduces uncertainty and enables firms and households to make the long-term investments needed to maximise growth potential, supported by appropriate growth-orientated policy frameworks.

**12. What are your views on the risks associated with the Corporate Sector Purchase Programme (CSPP)? Would you see any distortive effects on competition within the Single Market? How do you think possible distortive effects of the CSPP can be minimised?**

The CSPP has strengthened the pass-through of the eurosystem’s monetary policy measures to the real economy by contributing to the easing of financing conditions for firms in the euro area, including declines in corporate bond spreads, improved supply conditions in the corporate bond primary market and, through a substitution mechanism, increased bank lending to NFCs that do not have access to bond-based financing, including SMEs.

In pursuing its objective of maintaining price stability, the ECB is mandated to act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources. Consequently, the ECB aims for a market-neutral implementation of the APP, and therefore CSPP purchases are conducted according to a benchmark that reflects proportionally the market value of eligible bonds.

The free float of the corporate bond market remains relatively sizable, which alleviates concerns about a negative impact of the programme on market functioning. The continued efficient market functioning is also reflected in broadly-consistent spread movements in traditionally related markets due to the portfolio rebalancing channel. The continued close monitoring of market dynamics should ensure any potential distortive effects can be minimised.

**13. Do you think it should integrate the Paris agreement and the SDG goals and which conditions would need to be fulfilled to ensure a compliance with the ECB’s mandate and risk management framework? What should the ECB do in order to bring its asset holdings in line with the UN’s sustainable development gaols and the Paris climate agreement?**

It is important that all institutions – public and private – recognise fully the challenge posed by climate change, and act within their remits and mandates to support policies to address it. Without prejudice to its price stability mandate, consideration can be given to other objectives of the Union, including environmental protection.

The ECB’s monetary policy is guided primarily by its price stability mandate. The implementation of the APP is guided by the principle of market neutrality and does not positively or negatively discriminate on the basis of environmental or any other criteria. Eligibility criteria for the APP are deliberately broadly defined in order to provide a large range of purchasable securities to ensure the greatest effectiveness of the programme and avoid distortions of specific market segments. Despite the absence of an explicit environmental target in its monetary policy, the ECB holds a substantial quantity of green bonds both under its public sector and corporate sector purchase programmes.

Moreover, outside the monetary policy portfolio, there is scope for integrating environmental protection considerations.

It is good to see the ECB joining the Network for Greening the Financial System last year. I think it is particularly important that central banks and supervisors develop common supervisory and macroprudential practices to address climate-related and environmental risks. In that respect the development of a common taxonomy of sustainable assets is of considerable importance. The recent European Commission initiative in that regard is thus welcome, as well as the proposals for strengthening sustainability disclosure, which should contribute to better pricing of environmental risks.

**14. You recently gave a lecture on “Climate Change and the Irish Financial System” in which you stated that the ‘central banks have a leadership role in ensuring that climate change is a strategic priority for the financial system as a whole’. How would you ensure that the ECB lives up to this leadership role in general and how would you seek to mitigate the climate risks that you describe in your lecture in the ECB balance sheet in particular?**

Central banks and regulators more broadly have a leadership role in identifying financial risks. This includes identifying those emerging from climate change and providing a clear framework to support the reorientation of financial flows and reduce such risks. A clear policy framework is a much needed precondition to finance the greening of our economy as well for expanding the use of Environmental, Social and Governance (ESG) criteria by private and public institutions.

Central banks can provide careful analysis and research on these dimensions of climate change. Such a role is well within the mandates of central banks, given that climate change can affect the conduct of monetary policy by influencing the frequency and distributions of economic shocks and potentially affecting medium-term inflation expectations: (1) more frequent climate-related shocks may increasingly blur the analysis of the medium-term inflationary pressures; (2) more fat-tailed shocks may see interest rates hit the lower bound more often in the future; and (3) uncertainties surrounding the speed and scope of the transition towards a low-carbon economy can potentially affect medium-term inflation expectations. The ECB’s monetary policy is guided primarily by its price stability mandate. However for non-monetary policy portfolios, consideration should be given to incorporating ESG standards.

**15. How do you evaluate the currently increasing share of the corporate sector purchase programme on the primary market and at the same time the currently decreasing share of the public sector purchase programme on the secondary market?**

The end of APP does not mean that we cease being accommodative: our forward guidance on the key ECB interest rates, reinforced by the reinvestments of the sizeable stock of acquired assets, continues to provide the necessary degree of monetary accommodation to ensure sustained convergence of inflation to our aim. At our June 2018 meeting, we initiated a rotation of our policy instruments from the asset purchase programme towards more conventional instruments of monetary policy – the policy interest rates and forward guidance on their likely future evolution. This rotation emphasises that the key ECB interest rates and the associated forward guidance on their likely future evolution is the primary tool to adjust the monetary policy stance going forward.

This is reinforced by our forward guidance on reinvestment, through which we have linked the reinvestment horizon to the time of policy rate lift-off. This “chained guidance” strengthens the impact of our rate guidance on financial conditions, because market expectations for the reinvestment horizon will evolve in line with expectations for the date of rate lift-off. The free float of the corporate bond market remains relatively sizable, which alleviates concerns about a negative impact of the programme on market functioning.

**16. What is your view on the implementation of the emerging Liquidity Assistance (ELA)? What could be improved in the decision-making process on granting ELA?**

Currently the responsibility for the provision of ELA, including the associated costs and risks arising from this provision, is at the national level with the NCBs concerned, reflecting the respective national legislation. The ECB’s role, on the basis of Article 14.4 of the ESCB Statute, is thus limited to ensuring that ELA provision does not interfere with the ESCB’s tasks and objectives. Looking to the future, decision making on granting ELA should evolve in line with the rate of progress in building a complete banking union.

**17. Should we worry about current levels of Target imbalances?**

It is clear from numerous technical analyses that the current level of Target imbalances primarily reflects the mechanics of the asset purchase programmes. The decentralised implementation of monetary policy means that APP purchases and reinvestments are conducted by all National Central Banks (NCBs). More often than not, these purchases are made from counterparties located outside the NCB’s country. Whenever the payments by central banks for the securities purchased are settled across borders, TARGET2 balances can be affected. As net asset purchases came to an end last year, TARGET2 balances are less likely to continue growing sizeably, although they could remain elevated for some time given that we will continue reinvesting maturing principal payments. Intra-system balances are an inherent feature of any decentralised monetary union. Overall, it does not indicate an increase in financial market stress, a rise in fragmentation or unsustainable balance of payments developments.

**18. What are the risks to monetary stability related to the development of virtual currencies such as Bitcoin? Which role do you think the ECB should play in addressing virtual currencies?**

I share the prevailing consensus that there is only a very limited role for private virtual currencies. Crypto-assets more broadly do not currently pose a material risk to the EU financial system or monetary stability. Nevertheless, the continued monitoring of crypto-assets is necessary with a view to assessing the risks they might pose to financial stability, and any possible adverse impact on the use of the euro, the conduct of monetary policy and the safety and efficiency of market infrastructures and payments.

Technological innovation holds the potential to increase efficiency of financial markets. Provided a level playing field is maintained, both FinTech companies and banks can benefit from the opportunities of technological innovation. In this context, we need to be vigilant also about the need for harmonisation in order to avoid fragmentation through the adoption of differing fintech regulatory frameworks. As to the role the ECB should play, crypto-assets have the potential to touch many aspects of the work of the ECB, therefore close monitoring of developments is warranted to keep abreast of relevant developments and analyse potential implications for monetary policy and the risks they may entail for the smooth functioning of market infrastructures and payments, as well as for the stability of the financial system.

**19. How do you assess the interactions between payment systems and monetary policy? What should be the role of the ECB, as central bank of issue, on the oversight of CCPs? Which legal provisions should the amendment to Article 22 of the Statute of the ESCB and ECB contain in this regard?**

Central clearing offers important advantages in improving the stability of financial markets. At the same time, the central role played by CCPs mean that regulatory oversight is essential, including an important role for central banks. The proposed revision to the EMIR Regulation and Statute is fully consistent with the objective of strengthening the role of EU central banks and providing them with the appropriate tools to monitor and address risks to the fulfilment of their monetary policy mandates. It is also essential for central banks to have minimum safeguards in respect of CCPs to which they may need to provide liquidity in certain situations.

If adopted by EU legislators, the proposed amendment of Article 22 of the ESCB/ECB Statute would allow the ECB to fulfil its role in addressing the risks CCPs may pose to its monetary policy tasks. It also maintains the ECB’s independence and its broad discretion to define the scope of its monetary policy. As with any tasks undertaken by the ECB, those performed vis-à-vis CCPs would be subject to full judicial review, and the ECB would be required to act proportionally and within the scope of its Treaty-based competences.

**20. What are the risks related to Brexit for financial stability?**

Much has been done to address the cliff-edge risks associated with a ‘no deal’ Brexit. This has included the pressure imposed by regulators to ensure that firms have undertaken the necessary legal steps to ensure the EU customers can be served after Brexit. It also included the various steps taken by the European Commission in view of the importance of temporary recognition of UK-based market infrastructures in those cases where it is not possible to switch to EU alternatives in the short term.

Accordingly, I view the main risks to be associated with the macro-financial impact of Brexit in terms of its implications for the UK business cycle, the Sterling-euro exchange rate, UK asset prices and the ancillary impact on those regions of the EU most heavily exposed to the UK economy. While these may be substantial at the local level, the macro-financial impact of Brexit at the level of the EU27 is likely to be contained, in view of the limited size of the UK compared to the EU27.

**21. How do you see the role of the ECB in a context of possible slowdown of growth in the coming quarters?**

The incoming information has continued to be weaker than expected on account of softer external demand and some country and sector-specific factors. The most recent assessment of the Governing Council of the ECB noted that significant monetary policy stimulus remains essential to support the further build-up of domestic price pressures and headline inflation developments over the medium term. This will be provided by our forward guidance on the key ECB interest rates, reinforced by the reinvestments of the sizeable stock of acquired assets. The Governing Council also stated that it stands ready to adjust all of its instruments, as appropriate, to ensure that inflation continues to move towards the Governing Council’s inflation aim in a sustained manner. The full response to a downturn should also include the appropriate reaction in terms of fiscal policies and other stimulative policies.

**22. Do you think the ECB has “run out of ammunition” if there was another significant downturn? Could the ECB design new unconventional monetary policy instruments?**

As is always made clear in our policy communications, the Governing Council can respond to a significant downturn through a package of measures that draws upon different elements in the policy toolkit. Just as the current strategy benefits from the complementarities across the different current elements in the policy package, the design of the appropriate response to a significant downturn can draw on a range of options.

**23. How could the economic governance framework and in particular its implementation be enhanced? What would be required to deepen the EMU? Do you think that the so-called “virtuous triangle” of investment, structural reforms and public finance should also include steps forward to readdress the imbalances caused by the different taxation systems of the Member States?**

In recent years, the EMU governance framework has evolved along multiple dimensions. At one level, there has been a remarkable increase in shared sovereignty through the establishment and development of the SSM, the Single Resolution Board (SRB) and the European Stability Mechanism (ESM). The balance the community method and inter-governmental approaches in the governance of shared institutions should evolve in line with the fading of financial asymmetries across Member States and the re-building of mutual trust.

In terms of deepening EMU, the completion of banking union can do much to improve the resilience of the monetary union, with further enhancement through capital markets union. It is also clear that, subject to building the required political consensus to ensure its legitimacy, fiscal risk sharing mechanisms would also be helpful in improving resilience, especially in relation to large shocks. There are many options in designing such fiscal risk sharing systems in terms of the implications for national taxation and social insurance systems.

In terms of taxation policy and its relevance for the EMU, there are always trade-offs in the decentralisation of tax policy. This holds true at the regional level in federal systems and at the national level, both within the European Union and globally. While these tensions exist for the taxation of workers and goods and services, the most acute debate relates to the taxation of global firms, especially given the twin importance of intangible (and mobile) types of capital and digitalisation which has resulted in the increasing market share of superstar firms. This phenomenon cuts across different currency zones and its resolution lies with political leaders, not central bank officials.

**24. What is your view on the ongoing debate on the persistent high levels of public and private debt in the euro area?**

It is important to take an integrated view of sectoral balance sheets. For example, the combination of a highly-indebted sovereign and a strong net external creditor position (for instance, Japan) is clearly different in terms of risk profile to a “twin debts” situation in which both the sovereign and the nation are net debtors.

It is also important to recognise the feedback loops between debt levels and growth performance. In one direction, excessive speed in public or private deleveraging can be too costly in terms of its adverse impact on macroeconomic performance. However, equally, the time- and state-varying risk premia that can attach to high debt mean that it is important, especially during benign phases, to reduce excessive debt levels on a sustained basis. Taken together, this calls for a nuanced analysis of the joint dynamics of debt levels and output in order to ensure that optimal speed of deleveraging is attained.

**25. What are your views on the criticism that the ECB’s collateral framework is not gradual enough and relies too much on external credit ratings agencies? Do you think the EU should set up its own public CRA for rating certain assets?**

The Eurosystem has a statutory obligation to ensure that its operations are secured by adequate collateral. This is why it is so important to have sound risk control arrangements to mitigate the financial risks associated with its operations. In this regard, it should be noted that the Eurosystem does not rely exclusively on credit rating agencies when assessing the collateral that it accepts in its credit operations, but relies on four different sources: external credit assessment institutions; the in-house credit assessment systems of national central banks; internal ratings-based (IRB) systems of counterparties; and the rating tools of third-party providers.

Regardless of the identity of a credit rating agency, cyclicality is an inevitable feature of credit risk assessments: an adverse macroeconomic environment does map into a worse credit outlook. The risk of idiosyncratic assessments by individual credit rating agencies is mitigated by diversity in the pool of CRAs and this should be regularly monitored. More generally, the collateral eligibility rules of the ECB are sufficiently general to allow a wide range of assets to be presented, with appropriate differences in haircuts.

**26. Do you think, Greek bonds should and could be included in the reinvestment phase of PSPP and CSPP?**

Greek government bonds are currently not eligible to be purchased as Greece does not satisfy the minimum credit requirements and is no longer under an adjustment programme. Should eligibility of Greek government bonds occur while reinvestments are being conducted by the Eurosystem, a measured build-up of Greek government holdings could be envisaged.

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

The euro exchange rate has depreciated against the US dollar since the first quarter of 2018, to some degree reflecting the improved macroeconomic environment in the US and the policy tightening cycle started by the Federal Reserve. However, over the same period, the euro exchange rate has remained broadly stable against the currencies of other major trading partners. This implies that the euro’s depreciation in nominal effective terms has been much more moderate. Overall, this is consistent with the notion that developments in the euro exchange rate since March 2018 has mainly reflected US factors.

**28. How do you assess the achievements of the G20? What are your views on the current level of coordination between the main central banks?**

The G20 is an important forum for multilateral dialogue and seeking co-operative solutions: the increasing share of emerging countries in the global economy means that is vitally important that there is a strong institutional framework to bring together the governments of the major advanced and emerging economies. The guidance provided by the G20 to the work of the Financial Stability Board has proven important in ensuring a broadly-shared approach to financial regulation at the global level. As was demonstrated during 2009-2010, the G20 can also be an important forum in the formulation of common responses in the event of a severe global shock.

The main central banks maintain strong multilateral and bilateral relationships through frameworks such as the BIS, G20, G7, IMF and OECD. The increasing integration of the world economy and financial system mean that all central banks must take into account spillovers and spillbacks between domestic and international policy measures, while remaining focused on delivering individual mandates. The research literature suggests that this blended approach of making independent policy decisions but within a context of strong multilateral relationships should prove generally effective.

**29. Should the ECB take concrete steps in order to boost the euro as an international currency?**

The international role of the euro is supported by the pursuit of sound economic policies in the euro area and a deeper and more complete Economic and Monetary Union, including completing the Banking Union and advancing Capital Markets Union. In this sense, completing the EMU architecture by making the euro area more resilient will help to enhance the attractiveness of the use of the euro. Eurosystem initiatives on market infrastructure and payments, which contribute to increase efficiency and financial market integration in the euro area can also make a positive contribution. Increasing the supply of low-risk euro-denominated assets is also essential if global investors are to rely on the euro as a safe-haven currency.

**30. How realistic do you believe that JPY or CHR will challenge the euro as the second most important international currency?**

In the long run, it is possible to envisage a multi-polar international financial system in which no currency has hegemonic status. Since there are strong gravitational factors in both goods trade and assets trade, it is plausible that one or more Asian currencies will take on a more prominent cross-border role at both regional and global levels. This depends on further progress in the development of domestic financial systems in these countries, full financial account liberalisation and domestically-orientated monetary policy regimes.

**31. What are the main risks/opportunities ahead for the euro?**

The post-crisis institutional reforms have improved the resilience of the euro area. At the same time, more progress on banking union, capital markets union and enhanced risk sharing (together with strengthening national policies) would further improve its coherence. Accordingly, especially outside a crisis environment, the opportunity facing policymakers is to make institutional progress at national and area-wide levels. In contrast, a primary risk factor is the pursuit of alternative policy options that raise fragility and call into question the collective commitment to a resilient euro area.

**32. Should the ECB worry about the risk of a potential “currency war” with the US? Should the ECB consider adopting a more explicit communication policy concerning the euro exchange rate policy?**

The euro area and the United States are large currency areas that are able to run domestically-orientated monetary strategies, in view of the predominant roles of the euro and the dollar respectively in the operation of these economies and financial systems. Accordingly, while the exchange rate can be an important transmission mechanism for monetary policy, neither the ECB nor the Federal Reserve need to target the level of the exchange rate in order to deliver price stability. At the same time, large and sudden currency movements can be disruptive, such that major central banks retain the option to intervene in currency markets on an atypical basis.

**33. Should the ECB in your personal view buy more EIB bonds to help financing European investments in line with the ECB primary and secondary objectives?**

Supra-national bonds (including EIB bonds) are an important part of the euro-denominated bond market and the Eurosystem is a significant holder of such bonds under the PSPP. At the same time, the universe of supra-national bonds is too small to allow these bonds to be the primary target for the Eurosystem’s market operations and thus allow to achieve the programme’s monetary policy objective.

It is worth recalling that the Eurosystem is prohibited from buying bonds issued by the EIB in the primary market by Article 123 of the Treaty. Thus, these bonds can only be purchased in the secondary market and subject to the applicable eligibility criteria, including issue and issuer limits.

**34. Do you think that new Member States entrants should fulfil additional conditions before becoming new members of the Eurozone such as joining the Banking Union via the SSM, controlling money laundering risks effectively, demonstrate comparably stable property markets, controlling corruption effectively?**

It is essential that each country that intends to adopt the euro follows the proper path, modalities and timing, which include participation in ERM II without difficulty for at least two years.

Having said that, following the establishment of the banking union, any country adopting the euro will at the same time also enter the banking union. For this reason, Member States wishing to join the euro area should also be ready to participate in the Single Supervisory Mechanism and the Single Resolution Mechanism. Accordingly, the Member States is requested to establish close cooperation with the ECB and, as part of this process, a comprehensive assessment of countries’ banks by the ECB Banking Supervision is required.

**35. The Federal Reserve and the Bank of Canada have recently announced a review of their monetary policy framework. Twenty years after the introduction of the euro, do you think the time has come for conducting a similar review at the ECB?**

As indicated by these examples, it is a good idea to have periodic reviews of monetary policy frameworks. I am sure that the Governing Council will consider this issue in due course.

**36. Which role do you see for cash-based transactions compared to digital transactions in the future?**

There are clearly important advantages to digital transactions. At the same time, some issues remain to be resolved (including striking the balance between anonymity and traceability in digital transactions) before we can be entirely comfortable about the shift towards digital transactions. Central banks can adapt to different degrees of digitalisation and the global central banking community is closely studying these trends.

**37. How do you see the limitation of certain high denominations notes?**

I was party to, and supported, the May 2016 Governing Council review and decision of the denominational structure of the Europa series of banknotes. At the time the Governing Council decided to stop producing the €500 banknote, given concerns that it could facilitate illicit activities. However the €500 banknote will remain legal tender, and will always both be able to be exchanged at NCBs and retain its value

**C. Financial Stability and Supervision**

**38. How can we address the legacy from the crisis of high levels of the stock of non-performing loans as well as the risks in the flow of non-performing loans? How do you assess the problem of non-performing loans in the balance sheets of medium and small credit institutions? Which measures should the ECB/the SSM take to ensure that all Eurozone banks and not only the biggest ones appropriately provision bad loans?**

The case for tackling non-performing loans (NPLs) in a determined manner is clear. In particular, un-addressed NPLs increase the fragility of the banking system in the event of a future downturn, such that it is important to tackle this issue during periods of positive economic performance. The supervisory initiatives of ECB Banking Supervision have started to bear fruit. NPL levels have been coming down for significant institutions from around 7.5 percent in early 2015 to 4.2 percent in Q3 2018.[[6]](#footnote-6) The guidance issued by ECB Banking Supervision in March 2017 outlines that banks should implement NPL strategies for tackling the NPL stock. The guidance applies to all significant institutions in the euro area and it was further complemented by the addendum published in March 2018. The EU legislation to address NPLs under Pillar 1 represents a further necessary element to establish a statutory provisioning backstop and strengthen how EU banks deal with NPLs going forward.

While the tools available to larger banks (including the sale of NPL portfolios to non-bank investors) are not equally available to smaller banks, it is the aggregate stock of NPLs that matters most for financial stability, so that the national supervisors of smaller banks should also take steps to ensure this problem is addressed.

**39. How do you assess the high level of level 2 and level 3 assets in many banks balance sheets? Are these assets properly taken into account by the current supervisory framework?**

The SSM has been assessing the robustness of banks’ valuation practices with a view to promoting awareness of the inherent risks and the application of prudent valuation and risk management approaches using a combination of supervisory tools. The SSM has applied the full set of its supervisory instruments to ensure the robustness of banks’ valuation practices and significant resources have been dedicated to this issue since the inception of the SSM, beginning with the asset quality review as part of the 2014 comprehensive assessment. The SSM approach on valuation risk of complex assets is based on a combination of enhanced monitoring, “deep dives” and on-site inspections. Those inspections evaluate the soundness and effectiveness of the valuation framework and the controls over the pricing models that are used to produce fair values. The missions have a particular emphasis on the correct assignment of the positions to the fair value hierarchy (i.e. correct classification) and include the testing of specific transactions. Finally, it should also be noted that the relative importance of fair value assets and liabilities (1, 2 and 3 combined) has decreased markedly for SSM banks over the last years.

**40. What are your views on the regulation of shadow banking entities? Should the SSM be mandated to supervise shadow banking? Do you see the regulatory and supervisory loopholes we should address in the short term? What should be the role of the SSM as regards Fintech?**

There has been considerable progress in strengthening the EU regulatory and supervisory framework for non-banks. In particular, the post-crisis regulatory frameworks for securitisation, money market funds and investment funds represent a cornerstone to limit risks in the non-bank financial sector. At the same time, the share of non-bank financial intermediation has been growing both in Europe and globally, which has potential implications for financial stability and the financing of the real economy. For example, the investment fund sector has expanded rapidly in the euro area over the past ten years, with total assets held increasing from €4.5 trillion at the end of 2008 to €12.2 trillion at the end of 2018.[[7]](#footnote-7) EU bond funds have increased liquidity transformation, taking on further credit and interest rate risk. To address new and emerging risks from non-bank financial intermediation, we need to monitor the sector closely and develop the macroprudential toolkit for investment funds and non-bank finance, more generally. For those investment firms that are large, complex, interconnected, and perform bank-like activities, and may pose systemic risks, we should thus ensure that their regulation and supervision is aligned with that of systemic banking institutions. For instance, it would be sensible for the SSM to supervise large broker-dealer firms, in view of the close connections between the activities of broker-dealers and the banking system.

Competition from FinTech companies and non-bank financial intermediaries may challenge the earning capacity of banks but also offer opportunities to diversify income and reduce costs. It should be clear that supervisors (including the SSM) should be neutral between traditional firms and FinTech firms, with the same regulatory expectations for both groups.

**41. What are your views on the possible steps towards the completion of the banking Union with a European Deposit Guarantee Scheme and a fiscal backstop, including the necessary implementation of existing Banking Union legislation and the ongoing work with regard to risk sharing and risk reduction?**

The agreement on the common backstop to the SRF is an important step in moving towards a more complete banking union. At the same time, the potential gains from full banking union can only be unlocked with an even deeper joint commitment to financial stability and a single deposit insurance scheme. In turn, such a high degree of risk sharing naturally goes hand in hand with a reduction in asymmetrical risks across countries. In addition to the measures to further strengthen the soundness of the banking sector, the sensitivity of national banking systems to the national sovereign remains a barrier to full banking union. One element in weakening this potential doom loop is to reduce the home bias in the sovereign bond portfolios held by banks. This can be achieved in various ways, including through innovations such as the facilitation of sovereign-bond backed securities (SBBS).

**42. What risks related to leveraged loans do you see for financial stability?**

The expansion in leveraged loan markets in recent years is being closely studied by central banks and financial regulators. While there are obvious concerns with this credit category, it is also important to bear in mind the limited relative size of this market and the distribution of risks across the various types of ultimate investors.

**43. Which challenges would you foresee for the ECB if the European Stability Mechanism (ESM) were to be transformed into a European Monetary Fund (EMF)?**

The agreement to strengthen the ESM and to provide it with the financial instruments necessary to fulfil its tasks is a positive development. In terms of follow-up, two priorities stand out. First, it is important that the agreement respects the roles assigned to the different institutions by the EU Treaties and secondary law including the SSM Regulation. Second, the opening of the ESM Treaty represents a good opportunity to strengthen the ESM governance framework. For example, the clear structure for staff independence at the IMF provides a good template for the ESM. These factors are explained in more detail in a recent ECB opinion on the matter.[[8]](#footnote-8)

**44. What is your assessment of the involvement of the ECB in the context of financial assistance programmes? How do you see evolving in future a potential ECB involvement in financial assistance programmes and in post-programme surveillance?**

The ECB participated in adjustment programmes at the request of Member States, to complement the expertise of the Commission. The clear focus of ECB involvement should be on financial stability and financial sector issues, together with the macroeconomic dimension of budgetary policy. In terms of mandate, it is appropriate that ECB should not be involved in microeconomic issues such as budgetary line items, the design of social protection systems, privatisation programmes and structural reforms of labour and product markets.

**45. What are your views on the need to ensure a strict separation between monetary policy and banking supervision and what are in your view the reforms that would enhance and favour such separation?**

I support the separation principle and it is working well in practice in terms of the operation of the SSM. At the same time, it is clear that there are important mutual gains to supervisors and central banking officials through membership of the same organisation. In one direction, the exposure to the macroeconomic expertise of the ECB central banking staff should assist supervisors in assessing credit risks; in the other direction, the analysis of aggregated bank data helps monetary policy officials better understand the financial transmission channel.

**46. How could the SSM and the SRB enhance their cooperation?**

In line with the Memorandum of Understanding, cooperation between the ECB and SRB continues to improve, with information exchanges continuing on regular and ad hoc bases. This is the case both for day to day activities and for crisis management situations (e.g. FOLTF decisions). I understand there is active cooperation between boards and close cooperation at the technical level. As both the SSM and SRB mature institutionally, I am sure cooperation will get even stronger.

**47. 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?**

Macroprudential and monetary policy are complementary. With macroprudential policies mitigating financial stability risks at national and area-wide levels, this allows monetary policy full freedom to pursue its own distinct objective, which is maintaining price stability. The decision-making procedures and bodies of the ESRB (General Board) and ECB (Governing Council) are clearly separated by EU law. I do not see a material conflict of interest between the ESRB’s financial stability assessment and the ECB’s monetary policy function. Moreover, given the expertise of the ECB staff, it would be inefficient and costly to inhibit cooperation and collaboration between the ESRB secretariat and the ECB.

**48. What are your views regarding the structural reform of the banking sector as regards ‘too big or interconnected to fail’ institutions, saving banks, the overall issue of the profitability of the banking sector in the EU, and the way forward for its architecture in order to fulfil the needs of the real economy and long term financing?**

Euro area banks face diverse challenges, both with regard to cyclical and structural features of the markets in which they operate. Although some of the cyclical challenges to bank profitability have abated, a number of structural challenges are still material and continue to dampen profitability prospects. There is no “one size fits all” structural change that euro area banks need to undertake to ensure the banking system fulfils the needs of the real economy. The optimal strategy will depend on many factors including cost-saving opportunities such as streamlining distribution channels, cutting expenses, and improving IT systems as well as measures aimed at expanding fee-based income streams. Many bank business models are in need of reinvention to create sustainable ways of generating profits in a post-crisis environment. Excess capacity and fragmentation along national lines are to some extent hampering profitability of some euro area banking sectors. Cross border provision of services with euro area M&A accompanied by downsizing amidst an evolving banking union are needed for consolidation in the banking sector.

**49. How could money laundering and terrorist financing be addressed more effectively across the Banking Union? Which role should the ECB/the SSM play in this?**

Involvement in money laundering or terrorist financing can pose a significant risk to a bank, ultimately even to its viability. For this reason, the ECB, within the remit of its supervisory functions, takes the prudential implications of money laundering risks very seriously. However, the ECB is not responsible for enforcing legislation on prevention of the use of the financial system for the purpose of money laundering or terrorist financing. That task rests with national Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) authorities. These issues could be addressed more effectively by the timely and reliable receipt of information about the risks and breaches of AML/CFT requirements by supervised entities.

**50. In a recent case involving Malta’s Pilatus Bank, the ECB faced legal hurdles to revoke the lender’s licence after its chairman was arrested in March in the United States for alleged money laundering and bank fraud. This delay was allegedly caused by unclear rules and excessive discretionary powers for national supervisors. How do you assess the ECB’s capacity to prevent money laundering and act effectively in situations like this in the future based on its current prudential powers?**

The ECB depends entirely on the information provided by national AML/CFT authorities (directly or indirectly via national prudential supervisors). The purpose of the agreement between the ECB and the national AML/CFT supervisors is to facilitate and enhance the exchange of AML/CTF related information between the participating authorities. Most notably, the agreement details the procedure both for requesting and for providing the information (upon request and on own initiative), and provides for contact points that the signatories are expected to keep available at all times.

**51. Following recent scandals in the EU, how do you think that money laundering risks will be taken into consideration when the ECB assesses banks financial stability? Do you agree with the need to centralise AML supervision in the EU in a single agency and, in the meantime, to allow competent authorities to use taxation data for AML purposes?**

A pan-European approach to combating money laundering is needed. Since money laundering is often a cross-border phenomenon, the current framework can only be as effective as the weakest national implementation across Member States. The latest review of the AML Directive might not suffice to ensure a smooth and all-encompassing cooperation among the relevant supervisory authorities. An increased level of harmonisation of the applicable rules should be considered. However, making the necessary assessments and proposing how the EU AML/CFT framework could further develop is primarily the competence of the European Commission.

**52. Compared to the euro area, the US enjoy a more integrated financial sector, which is instrumental to smooth out the effect of adverse shocks (resilience). Yet, the Global Financial Crisis has shown the resilient-yet-fragile nature of financial networks: the same features that make the system more resilient under certain conditions may function as significant sources of systemic risk and instability under another. Is deeper financial integration always consistent with the objective of financial stability? What should be the goals of the CMU?**

The “financial trilemma” framework pinpoints a basic requirement for the successful reconciliation of financial integration and financial stability. In particular, it requires a common regulatory and supervisory framework, together with central banks that are capable of acting in support of financial stability during crisis episodes. The tragedy of the first decade of monetary union was that the rapid expansion in cross-border credit was not matched by the integration of financial supervision. In the wake of the crisis, we now have the SSM and the European Supervisory Authorities (EBA, ESMA, EIOPA) helping to develop a common approach to supervision within the common legal framework laid out in the CRR/CRD. The integration of the financial system has also been matched by the introduction of the Single Resolution Board, the Single Resolution Fund and the ESM. Furthermore, active use of macroprudential policies can also help limit the potential risks to financial stability arising from financial integration.

It is also important to bear in mind the potential gains from financial integration. In addition to fostering the scale needed to boost competition and deliver cost efficiencies in those market segments that have high fixed costs, geographical diversification is an important element in insulating investors and consumers from country-specific risk exposures. Accordingly, further progress on banking union and capital markets union can enhance the stability of all Member States.

**D. Functioning of the ECB and Democratic Accountability and Transparency**

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

Social dialogue is a fundamental component of the European social model. At both ECB and ESCB levels, it is important that there is direct engagement between the leadership and staff representatives. At the ECB, I understand that progress on workload, working time and flexibility has been made in recent times. Personally, I believe thorough engagement and discussion with staff representatives to ensure views are fully heard and understood is an important element in building a sustainable and fulfilling work environment.

**54. The EP plays a major role in the accountability of the ECB. What conclusions do you draw from the comparison with other jurisdictions? (e.g. US Congress/Fed vs EP/ECB vs UK Parliament/Bank of England)**

The counterpart to independence is accountability. If central banks are to be entrusted with a high degree of independence, it is critical to demonstrate that this independence is appropriately deployed.

The European Parliament – as the representative institution of EU citizens – plays a fundamental role in holding the ECB to account. This occurs through the regular appearances of the ECB President at the ECON committee as well as other debates at the Plenary, the presentation of the annual report in ECON, the written answers to questions posed by MEPs – which are published - and other mechanisms. It is in the interests of the ECB to respond fully and with due timeliness to queries raised by MEPs through these various fora, since these questions typically reflect concerns among the general public in the different Member States. In addition, improving the general understanding of the policies of the ECB also improves the effectiveness of these policies, which typically rely on households, firms and market participants responding to these policy measures.

The ECB has learned lessons from other jurisdictions (and from the wider evolution in thinking about the accountability of independent institutions) and responded in kind by changing the way it communicates. For example, publishing accounts of the discussions we have in the Governing Council better enables members of the European Parliament, market participants, and citizens to understand our thinking. The high volume of publications issued by the ECB is also an important element in ensuring the policymaking process is as transparent as possible, which is further reinforced by engagement through new social media channels.

It is also worth noting that the ECB practice of holding a press conference after every monetary policy regime is now being matched elsewhere.

Importantly, in taking on new responsibilities – supervision for example – a revised accountability framework was put in place. The ECB operates in a unique institutional environment and has responded to new demands for greater scrutiny, transparency and accountability. More broadly, I am sure the ECB’s communications strategy will continue to evolve in the coming years.

**55. What measures and future reforms would in your view reinforce the democratic accountability of the ECB towards the European Parliament?**

A basic focus should be on making sure that the current engagement model between the ECB and the European Parliament (as outlined above) operates as well as possible. For example, the ECB should always be open to feedback from MEPs as to the quality and timeliness of answers given to questions. The ECB should also be open to new types of engagement, given developments and innovations in communications media.

During my tenure as Governor of the Central Bank of Ireland, accountability and transparency has been a central part to the Bank’s strategy, reflecting our vision of being trusted by the public and respected by our peers. In fact, the Central Bank of Ireland won the award for transparency at the Central Banking Awards in recognition of our high standards of transparency and accountability. Contributing to this was our work on how we dealt with Freedom of Information requests, the publication of the Bank’s Commission (Board) accounts and transcripts of key media interviews, and transparency on items such as our travel expenses, organisational policies and salary scales. We should always be open to learning, developing and innovating.

**56. What could the ECB concretely do to have female candidates for ECB top positions in the future and enhance overall gender diversity in the ECB? How do you personally intend to improve gender balance within the ECB?**

Gender diversity (especially at senior levels) is not just an issue for the ECB, but for the Eurosystem, central banking globally and indeed the disciplines of macroeconomics and finance. At the Central Bank of Ireland, the four top-level policy positions are held by two men and two women (governor, two deputy governors, the director general for financial conduct). More generally, 40 percent of our senior leadership is female and 46 percent of our division heads. I see on a daily basis the value of gender diversity in policymaking and organisational development.

One important principle in building a sustainable, progressive workplace is to promote a healthy work-life balance. This benefits both men and women and makes it easier to reconcile the demands of senior positions and family life.

A second important principle is to ensure that promotion criteria focus on potential of candidates, rather than the length of a CV. This approach makes it easier to adjust for more varied career histories.

A third principle is that a portfolio approach is adopted in making appointments at different levels in an organisation, such that the collective profile of each layer is appropriately balanced.

**57. How do you see possible improvements for the ECB’s accountability vis-à-vis the ECA in terms of its operational efficiency?**

The Treaty defines the ECA’s mandate to examine the operational efficiency of the management of the ECB. Over the past number of years, the ECB has collaborated with and appreciated the work undertaken by the ECA and its contribution to further strengthening the operational efficiency of the ECB’s management.

I am open to further cooperation and engagement on the modalities of possible inter-institutional arrangements for information sharing with ECA, within the limits of the Treaty. It is in the interests of the ECB to make sure that the ECA is able to perform its duties effectively.

**58. What do you think about the fact that the Council in the past once ignored the opinion of the EP regarding the appointment of a board member?**

It is appropriate to leave the design of the appointment process for Executive Board members to the EU legislators.

**59. Will you accept your appointment to the ECB Executive Board if the EP were to vote against it?**

I am honoured to be nominated by my government, and recommended to the European Council by the Economic and Financial Affairs Council. I am sincerely hopeful that the European Parliament will also deliver a favourable opinion on the Council recommendation.

**60. How do you assess the membership of ECB President Mario Draghi in the Group of Thirty (G30)? Do you concur with the EU Ombudsman request that the ECB President should end his membership of the G30 to preserve the integrity of European institutions as a whole?**

It is critical that the ECB Executive Board members adhere to the robust transparency and good governance.

The ECB response to the decision of the European Ombudsman maintained that members of its decision-making bodies must be allowed to belong to fora which include participants such as representatives of supervised entities and to attend related meetings, when such gatherings are deemed relevant and useful for central bankers in fulfilling their mandates, and provided that their forum membership is compatible with the principles of good governance. I agree with this stance. In addition, I welcome the recent moves by the G30 to improve transparency by publishing the agendas of its meetings and other measures.

PROCEDURE – COMMITTEE RESPONSIBLE

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| --- | --- |
| **Title** | Appointment of a member of the Executive Board of the European Central Bank |
| **References** | 05940/2019 – C8-0050/2019 – 2019/0801(NLE) |
| **Date of consultation / request for consent** | 14.2.2019 |  |  |  |
| **Committee responsible**       Date announced in plenary | ECON |  |  |  |
| **Rapporteurs**       Date appointed | Roberto Gualtieri11.2.2019 |  |  |  |
| **Discussed in committee** | 26.2.2019 |  |  |  |
| **Date adopted** | 26.2.2019 |  |  |  |
| **Result of final vote** | +:–:0: | 3386 |
| **Members present for the final vote** | Pervenche Berès, Esther de Lange, Markus Ferber, Jonás Fernández, Giuseppe Ferrandino, Sven Giegold, Roberto Gualtieri, Brian Hayes, Gunnar Hökmark, Cătălin Sorin Ivan, Petr Ježek, Othmar Karas, Wolf Klinz, Werner Langen, Bernd Lucke, Olle Ludvigsson, Ivana Maletić, Gabriel Mato, Alex Mayer, Bernard Monot, Luděk Niedermayer, Stanisław Ożóg, Ralph Packet, Dariusz Rosati, Pirkko Ruohonen-Lerner, Anne Sander, Molly Scott Cato, Pedro Silva Pereira, Peter Simon, Theodor Dumitru Stolojan, Paul Tang, Ramon Tremosa i Balcells, Ernest Urtasun, Marco Valli, Babette Winter, Sotirios Zarianopoulos |
| **Substitutes present for the final vote** | Eric Andrieu, Nessa Childers, Bas Eickhout, Sophia in ‘t Veld, Jeppe Kofod, Aleksejs Loskutovs, Thomas Mann, Andreas Schwab, Lieve Wierinck |
| **Substitutes under Rule 200(2) present for the final vote** | Ole Christensen, Danilo Oscar Lancini |
| **Date tabled** | 1.3.2019 |

1. Not yet published in the Official Journal. [↑](#footnote-ref-1)
2. See “[Survey on the Access to Finance of Enterprises in the Euro Area: April to September 2018](https://www.ecb.europa.eu/stats/accesstofinancesofenterprises/pdf/ecb.safe201811.en.pdf?bf53eb74719f11c22cad859edf60452c),” ECB, November 2018. [↑](#footnote-ref-2)
3. See “[Monetary Developments in the Euro Area: December 2018](https://www.ecb.europa.eu/press/pr/stats/md/html/ecb.md1812~d236da6992.en.html),” ECB, January 2019. [↑](#footnote-ref-3)
4. See “[The euro area bank lending survey: Fourth quarter of 2018](https://www.ecb.europa.eu/stats/ecb_surveys/bank_lending_survey/pdf/ecb.blssurvey2018q4.en.pdf?63ba47ba8381869b17969ebbf7608da1),” ECB, January 2019. [↑](#footnote-ref-4)
5. See “[Financial Stability Review, November 2018,](https://www.ecb.europa.eu/pub/fsr/html/index.en.html)” ECB, November 2018. [↑](#footnote-ref-5)
6. See “[Supervisory Banking Statistics: Third Quarter 2018](https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.supervisorybankingstatistics_third_quarter_2018_201901.en.pdf),” ECB Banking Supervision, January 2019. [↑](#footnote-ref-6)
7. Source: Investment Funds Balance Sheet Statistics, ECB Statistical Data Warehouse. [↑](#footnote-ref-7)
8. See [ECB Opinion (CON/2018/20)](https://www.ecb.europa.eu/ecb/legal/pdf/en_con_2018_20_f_sign.pdf). [↑](#footnote-ref-8)