European Parliament
2019-2024

Committee on Economic and Monetary Affairs

2019/0810(NLE)

29.8.2019

DRAFT REPORT

on the Council recommendation on the appointment of the President of the European Central Bank
(C9-0048/2019 – 2019/0810(NLE))

Committee on Economic and Monetary Affairs

Rapporteur: Roberto Gualtieri

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PROPOSAL FOR A EUROPEAN PARLIAMENT DECISION

on the Council recommendation on the appointment of the President of the European Central Bank
(C9-0048/2019 – 2019/0810(NLE))

(Consultation)

The European Parliament,

– having regard to the Council's recommendation of 9 July 2019[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 (C9-0048/2019),

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

– having regard to the report of the Committee on Economic and Monetary Affairs (A9-0000/2019),

A. whereas, by letter of 16 July 2019, the European Council consulted Parliament on the appointment of Christine Lagarde as the President of the European Central Bank for a term of office of eight years, with effect from 1 November 2019;

B. whereas Parliament's Committee on Economic and Monetary Affairs then proceeded to evaluate the credentials of the candidate, 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 the candidate as well as her replies to the written questionnaire that had been sent to her;

C. whereas the committee subsequently held a two-and-a-half-hour hearing with the candidate on 4 September 2019, at which she made an opening statement and then answered questions put by the members of the committee;

1. Delivers [a favourable / an unfavourable] opinion on the Council recommendation to appoint Christine Lagarde as President of the European Central Bank (, and asks for the recommendation to be withdrawn and for a new one to be submitted to Parliament);

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

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[1] OJ C 235, 12.7.2019, p. 1.

ANNEX 1: CURRICULUM VITAE OF CHRISTINE LAGARDE

Personal Details	Date of birth: January 1, 1956 Place of birth: Paris Nationality: France

Professional Career

International financial institution

July 2011 until present	Managing Director of the International Monetary Fund, Washington, D.C. One full term from July 2011 to July 2016, one partial term from July 2016 to September 2019

Domestic Public Sector

June 2007 to July 2011	Minister of Economy and Finance of France French presidency of the European Union during the second semester of 2008 Ecofin Presidency French Presidency of the G20 in 2011 Presidency of the G20 Finance
May 2007 to June 2007	Minister of Agriculture and Fisheries of France
May 2005 to May 2007	Minister of Trade of France

Private Sector

October 1999 to McKenzie, May 2005	Global Chairman of international law firm Baker Chicago, USA
October 1995 to October 1999	Member of the Global Executive Committee and Managing Partner, Baker McKenzie Paris office.
May 1981 to 1999	Attorney at law practicing predominantly in commercial, mergers and acquisitions, antitrust, labor law and arbitration for international corporate clients.
September 1980 to September 1982	Lecturer in contract law at Paris X Law School

Education

Master in Commercial Law, DESS in Commercial and Labor Law
Paris X Law School, 1980

Master with major in Economics and Finance, dissertation on the U.S. consumers movement, Ralph Nader, a Public Citizen.
Sciences Po Aix en Provence, 1977

Master in American Literature
Avignon Art College, 1977

Title : Lawyer with the Paris Bar

International Academic Recognition

Louvain La Neuve—Doctor honoris Causae

Smith College—Honorary degree

University of Montreal—Honorary doctorate

Universidad del Pacifico—Degree of honorary

member Washington College—Honorary degree

Claremont McKenna College—Honorary degree

Robinson College—Cambridge Honorary fellowship

Awards and Positions

9/2/2011	Participation on the Board of Directors of Sciences Po
9/2/2011	Proposed Acceptance of the Atlantic Council's 2011 Global Citizenship Award
9/2/2011	Participation on the Board of Directors of the World Economic Forum
11/1/2011	Proposed Acceptance of the European Institute's Transatlantic Leadership Award
3/20/2012	Notification of Acceptance of Award from Peru
6/4/2012	Proposed Acceptance of Promotion to the Rank of Officer in the National Order of the Legion of Honor
7/31/2012	Proposed Acceptance of Globalist of the Year Award from the Canadian International Council
9/5/2012	Proposed Acceptance of Honorary Degree from the University of Leuven
10/25/2012	Proposed Acceptance of 2012 Leadership Award from the Union of Arab Banks
2/5/2013	Notification of Acceptance of Award from Cote d'Ivoire
4/16/2013	Proposed Acceptance of Invitation to Serve on Board of the Holton-Arms School Board of Trustees

2/14/2014	Proposed Acceptance of the Inaugural Global Achievement Award from the Global Foundation
3/31/2014	Acceptance of an Honorary Degree from Smith College
5/19/2014	Acceptance of an Honorary Doctorate from the University of Montreal
5/19/2014	Acceptance of Invitation to Serve on the Board of Governors of the Conference of Montreal
9/12/2014	Proposed Acceptance of 2014 Diplomat of the Year Award from Foreign Policy Magazine
3/4/2015	Proposed Acceptance of Honor from Baker and McKenzie
11/30/2015	Acceptance of Invitation from the Holton-Arms School to Serve as Honorary Chair for Fundraising Campaign
12/22/2015	Acceptance of Invitation to Serve as Chair of the Honorary Committee for theUS-Canada Tour of the Orchestre National de France
1/14/2016	Participation on the UN Secretary General's High Level Panel for Women's Economic Empowerment
1/28/2016	Acceptance of the Global Leadership Award from the Columbia University School of International Public Affairs
4/6/2016	Acceptance of Mohamed Bin Rashid Medal of Honor for Women
9/8/2016	Acceptance of the Woman of the Year and Lifetime Achievement Award from Glamour Magazine
11/8/2016	Acceptance of the Degree of Honorary Member of Universidad del Pacifico
1/24/2017	Acceptance of the Global Women's Leadership Award from the International Planning Committee of the Global Summit of Women
3/13/2017	Proposed Acceptance of the Honorary Degree from Washington College
3/7/2018	Participation on the G7 Gender Equality Advisory Council
3/26/2018	Notification of Acceptance of the “Djibouti Commander in the National Order of June 27 Honor”
4/9/2018	Proposed Acceptance of an Honorary Degree from Claremont McKenna College
6/22/2018	Proposed Acceptance of a Fellowship from the Institute of Banking
8/8/2018	Proposed Acceptance of the Appeal of Conscience World Leader Award from the Appeal of Conscience Foundation
2/1/2019	Proposed Acceptance of the Distinguished Alumna Award from the Holton- Arms School
2/1/2019	Proposed Acceptance of the Distinguished International Leadership Award from the Atlantic Council
3/21/2019	Proposed Acceptance of the 2019 CARE Humanitarian Award from CARE (Cooperative for Assistance and Relief Everywhere)
4/2/2019	Proposed Acceptance to Join the International Gender Champions Network and Co-Chair Its Finance Hub

Publications

Breaking New Grounds in French Labor Law, 1982

Fragmentation Risks - Finance & Development, September 2012
https://www.imf.org/external/pubs/ft/fandd/2012/09/straight.htm

Dare the Difference - Finance & Development, June 2013

https://www.imf.org/external/pubs/ft/fandd/2013/06/straight.htm

Focus, Flexibility, Service - Finance & Development, September 2014

https://www.imf.org/external/pubs/ft/fandd/2014/09/straight.htm

Path to Development -- Finance & Development, June 2015

https://www.imf.org/external/pubs/ft/fandd/2015/06/straight.htm

The Voice of Youth -- Finance & Development, June 2017

https://www.imf.org/external/pubs/ft/fandd/2017/06/straight.htm

A Regulatory Approach to Fintech - Finance and Development, March 2018
https://www.imf.org/external/pubs/ft/fandd/2018/06/how-policymakers-should-regulate-cryptoassets-and-fintech/straight.htm

A Global Imperative to Empower Women – Finance & Development March 2019
https://www.imf.org/external/pubs/ft/fandd/2019/03/empowering-women-critical-for-global-economy-lagarde.htm

Key Speeches

European Bank Recapitalization – Jackson Hole, August 2011
https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp082711

Global Risks Are Rising, But There Is a Path to Recovery, Jackson Hole, August 2011
https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp082711

Global Challenges in 2012 – Berlin, January 2012
https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp012312

Anchoring Stability to Sustain Higher and Better Growth, Zurich, May 2012
https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp050712

The Legacy of Charlemagne – Schäuble and European Integration, Aachen, May 2012 https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp051612

The Global Calculus of Unconventional Monetary Policies, Jackson Hole, August 2013
https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp082313

The Challenge Facing the Global Economy: New Momentum to Overcome a New Mediocre, Washington, D.C., October 2014
https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp100214

Daring the Difference: The 3 L's of Women's Empowerment, Washington, D.C., May 2014
https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp051914

Lifting the Small Boats, Brussels, June 2015
https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp061715

Not Your Grandmother's IMF, Annual Meetings, Lima, October 2015
https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp100915

Demographic Changes and the Role of Fiscal Policy, MIT, March 2016
https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp030416

Addressing Corruption with Clarity, Brookings Institution, September 2017
https://www.imf.org/en/News/Articles/2017/09/18/sp091817-addressing-corruption-with-clarity

A Time to Repair the Roof, Harvard University, October 2017
https://www.imf.org/en/News/Articles/2017/10/04/sp100517-a-time-to-repair-the-roof

Central Banking and Fintech, A Brave New World, Bank of England, September 2017
https://www.imf.org/en/News/Articles/2017/09/28/sp092917-central-banking-and-fintech-a-brave-new-world

A Compass to Prosperity: The Next Steps of Euro Area Economic Integration, Berlin, March 2018

https://www.imf.org/en/News/Articles/2018/03/26/sp032618-a-compass-to-prosperity-the-next-steps-of-euro-area-economic-integration

Age of Ingenuity: Reimagining 21st Century International Cooperation, Kissinger Lecture, Library of Congress, December 2018
https://www.imf.org/en/News/Articles/2018/12/04/sp120418-md-kissinger-speech

Creating a Better Global Trade System, Portland, May 2018
https://www.imf.org/en/News/Articles/2018/05/14/sp-lagarde-creating-a-better-global-trade-system

Steer, Don't Drift: Managing Risks to Keep the Global Economy on Course, IMF, October 2018 https://www.imf.org/en/News/Articles/2018/09/27/sp100118-steer-dont-drift

Winds of Change: The Case for New Digital Currency, Singapore Fintech Festival, November 2018

https://www.imf.org/en/News/Articles/2018/11/13/sp111418-winds-of-change-the-case-for-

new-digital-currency

Belt and Road Initiative: Strategies to Deliver in the Next Phase, Beijing, April 2018
https://www.imf.org/en/News/Articles/2018/04/11/sp041218-belt-and-road-initiative-strategies-to-deliver-in-the-next-phase

Euro 2.0: Past, Present, and Future of Euro Area Integration, The Euro at 20 Conference, Dublin, June 2018
https://www.imf.org/en/News/Seminars/Conferences/2018/05/17/~/link.aspx?_id=D56874C4

33F343C6BE326A611F4D62E9&_z=z

New Economic Landscape, New Multilateralism, Bali Annual Meetings, October 2018
https://www.imf.org/en/News/Articles/2018/10/11/sp101218-new-economic-landscape-new-multilateralism

The Case for the Sustainable Development Goals, Helen Alexander Lecture, IMF, September 2018

https://www.imf.org/en/News/Articles/2018/09/17/sp09172018-the-case-for-the-sustainable-development-goals

The Financial Sector: Redefining a Broader Sense of Purpose, Tacitus Lecture, London, February 2019

https://www.imf.org/en/News/Articles/2019/02/21/sp022819-md-the-financial-sector-

redefining-a-broader-sense-of-purpose

The Euro Area: Creating a Stronger Economic Ecosystem, Banque de France, March 2019
https://www.imf.org/en/News/Articles/2019/03/28/sp032819-the-euro-area-creating-a-stronger-economic-ecosystem.

Forging a Stronger Social Contract—the IMF's Approach to Social Spending, Geneva, June

2019

https://www.imf.org/en/News/Articles/2019/06/14/sp061419-md-social-spending

Selected IMF Blog Posts

Getting Real on Meeting Paris Climate Change Commitments
https://blogs.imf.org/2019/05/03/getting-real-on-meeting-paris-climate-change-commitments/?utm_medium=email&utm_source=govdelivery

Corporate Taxation in the Global Economy

https://blogs.imf.org/2019/03/25/corporate-taxation-in-the-global-economy/

When History Rhymes

https://blogs.imf.org/2018/11/05/when-history-rhymes/

Economic Gains from Gender Inclusion: Even Greater Than You Thought
https://blogs.imf.org/2018/11/28/economic-gains-from-gender-inclusion-even-greater-than-you-thought/

Realizing the Potential of the G20 Compact with Africa

https://blogs.imf.org/2018/10/30/realizing-the-potential-of-the-g20-compact-with-africa/

Ten Years After Lehman—Lessons Learned and Challenges Ahead
https://blogs.imf.org/2018/09/05/ten-years-after-lehman-lessons-learned-and-challenges-ahead/

Addressing the Dark Side of the Crypto World https://blogs.imf.org/2018/03/13/addressing-the-dark-side-of-the-crypto-world/

A Dream Deferred: Inequality and Poverty Across Generations in Europe
https://blogs.imf.org/2018/01/24/a-dream-deferred-inequality-and-poverty-across-generations-in-europe/

Fintech—Capturing the Benefits, Avoiding the Risks

https://blogs.imf.org/2017/06/20/fintech-capturing-the-benefits-avoiding-the-risks/

Protecting Education and Health Spending in Low-Income Countries
https://blogs.imf.org/2017/06/06/protecting-education-and-health-spending-in-low-income-countries/

To Boost Growth: Employ More Women

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What We Can Do to Improve Women's Economic Opportunities
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https://blogs.imf.org/2012/05/06/how-to-get-the-balance-right-fiscal-policy-at-a-time-of-crisis/

ANNEX 2: ANSWERS BY CHRISTINE LAGARDE 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.

My professional experience spans over the last four decades and developed in this unique blend of private sector experience (as a practicing attorney and as an executive, at the American law firm Baker McKenzie 1980 to 2005), and of public policy leadership positions both domestically (as Trade Minister and Economy and Finance Minister from 2005 to 2011), and internationally (as Managing Director of the International Monetary Fund from 2011 to present time). As French Minister and member of Council of the EU, I was moreover directly involved in EU decision-making.

In all these positions I have been exposed to business and financial matters. All my clients were large corporate entities when I was an attorney. I also gained substantial exposure to the financial community either when I was Minister of Economy and Finance or as Managing Director of the IMF. In all these positions I have operated in a domestic and international setting both in private and public sector; my working language has been English for the last 40 years or so with the exception of my six years in the French government.

I gained multifaceted experience ranging from tax and antitrust, labour and mergers and acquisition practice, to financial crisis management at the national and international level during the global financial crisis. My most recent professional experience as Managing Director of the IMF drew on the unparalleled triple mission (i) policy guidance and economic monitoring, (ii) crisis management and lending programmes, (iii) training and capacity building. In all these positions I had regular exchanges with policy-makers at the highest level, and was able to leverage those relationships for the benefit of the institutions I lead over the years. The professional experience thus gained has allowed me to develop a comprehensive understanding of the European and global economies as well as international standing. My experience of heading a big international organisation like the IMF further underlines my ability to listen to staff and stakeholders, shape a common and modern vision, take a collegial approach and strive to build consensus to achieve better outcomes.

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?

When becoming Minister of Trade in 2005, I had stepped down from any alternative and possibly conflicting positions such as a board member of ING or other Baker McKenzie-related entities including member of the board of the European Law Centre that I had set up in 1995.

Subsequently, I only accepted honorary positions such as advisory board member of Robinson

College in Cambridge, and honorary board member of Holton Arms School in Washington, with the prior approval of the Ethics Committee of the IMF Board.

In addition, I have consistently defended the cause of women whenever there was discrimination and inequality. I intend to continue doing so and would expect that it would not impair my authority to speak on monetary matters nor would it distract me from discharging my duties to the best of my abilities. The same is true in relation to climate change issues and the protection of our environment.

3. What would be the guiding objectives you will pursue during your eight-year mandate as President of the European Central Bank?

The primary objective of the ECB is to maintain price stability, and it will have to do so in a domestic and international environment that has significantly evolved over the last ten years. This environment, in its advanced economy parts, is characterised by moderate growth and low inflation. And while the financial sector is safer and better regulated than it was before the global financial crisis, slow growth and low inflation will be a challenge for financial intermediaries whose business models have been established in a dynamic-growth, high- inflation world. Furthermore, new and often disruptive technologies are transforming the way in which the economy operates. International cooperation is called into question, the environment is under threat of climate change and extreme weather developments and in many parts of the world populations are rapidly aging.

In this context, the ECB will need to continue to carefully monitor and analyse economic and financial developments in Europe and around the world. If appointed ECB President, I will foster such alertness to the new trends within the institution and encourage analysis to study them. I will seek to develop consensus within the Governing Council and would endeavour to communicate as clearly and simply as possible both the strategy and the policies of the ECB in a complex world bearing in mind its multi-layered and multi-cultural audiences ranging from European citizens to financial markets.

My ultimate premise is that the euro is a European public good that should continue to improve its international standing. A strong institutional architecture of the Economic and Monetary Union (EMU) and a determined ECB focused on delivering price stability are key in this for the benefit of all.

B. ECB monetary policy

4. What is your assessment of the ECB's monetary policy as it has been implemented over the last 8 years? What changes, if any, would you promote when becoming President of the ECB?

The primary objective of the ECB is to maintain price stability in the euro area. The ECB has defined price stability to be a yearly positive inflation rate of below 2% and has declared that, in pursuing price stability, it will aim at an inflation rate below, but close to, 2% over the medium term.

The ECB has faced a very challenging environment over the past 8 years. In response to the financial and sovereign debt crises, the ECB took a number of measures that were pivotal in safeguarding the monetary policy transmission mechanism, supporting the euro area economy and ultimately steering inflation towards levels that are more in line with its policy aim.

In particular the easing measures deployed since June 2014, including targeted longer-term refinancing operations, negative rates, large-scale asset purchases and forward guidance, were successful in fending off the risks of deflation and redenomination at the height of the crisis. In June 2014, headline inflation was well below 1% and declining. Today, headline inflation is expected to be 1.3% in 2019, 1.4% in 2020 and 1.6% in 2021. The euro area has seen continuous economic growth for the past six years, and unemployment has fallen to the lowest levels since July 2008. The progressive tightening of the labour market is a signal that the policy measures of the ECB create the necessary conditions for inflation to keep strengthening.

Overall, considering the past eight years, I would say that the monetary policy of the ECB has been effective and successful. According to ECB calculations, over the period 2016-2020, growth and inflation would have been around 1.9 percentage points lower in the absence of the ECB's actions taken between mid-2014 and mid-2018. At the same time, however, inflation has been persistently below levels that are consistent with the ECB's inflation aim over recent years. The euro area economic expansion has also slowed of late and the risks surrounding the growth outlook are tilted to the downside. It is therefore clear that monetary policy needs to remain highly accommodative for the foreseeable future.

Looking ahead, it would be worth collecting lessons from the financial crisis as regards changes in the macroeconomic environment and inflation process. This could inform future reflections on the conduct and operational aspects of the ECB's monetary policy, also considering how it can best support the general policies in the European Union, such as sustainable and inclusive growth, without prejudice to its primary objective of maintaining price stability. In addition, changes in the regulatory environment and in financial intermediation over recent years may warrant a review of the operational framework of monetary policy. Along with other central banks, the ECB made a lot of adjustments to the way it implements its monetary policy in response to the financial crisis and market practices. Consideration should, therefore, be given to the way monetary policy will be implemented in the longer run, including size and composition of central banks' balance sheets and the choice of policy instruments.

5. What are the main risks/opportunities ahead for the euro? What do you see as the most important risks and challenges facing the ECB?

The current macroeconomic and international environment presents a key near-term challenge for the ECB. The euro area growth momentum has slowed and the balance of risks to the growth outlook is tilted to the downside. Inflation remains subdued. It is therefore clear that monetary policy needs to remain highly accommodative for the foreseeable future. The ECB has a broad tool kit at its disposal and must stand ready to act. The precise mix of instruments deployed will have to depend on the nature of the shocks affecting the outlook for inflation as well as on financial market conditions. While I do not believe that the ECB has hit the effective lower bound on policy rates, it is clear that low rates have implications for the banking sector and financial stability more generally. So it will be essential to closely monitor whether adverse side effects may emerge in the future, the longer low interest rates are in place.

Furthermore, the ECB is faced with a growing number of structural challenges and will also have to manage expectations about what it can and cannot do to maintain trust in policies. While monetary policy is an effective tool for stabilising the economic cycle, it cannot lift countries' longer-term growth potential. In other areas and where new challenges arise – ranging from digitalisation and cryptocurrencies, cyber security and anti-money laundering (AML) to climate change – it will have to clarify how these affect its operations and how it can contribute.

As regards the euro, the institutional architecture which started to be put in place during the crisis – notably comprising the banking union, the European crisis management framework and the capital markets union (CMU) – remains incomplete. The euro area architecture also still lacks a central fiscal instrument for macroeconomic stabilisation. Progress in these areas will not only make the euro area more resilient, but also supports the effectiveness of monetary policy and the international role of the euro. One of the important lessons of the first twenty years of the euro is also that seizing the opportunities from the single currency requires sound national economic and fiscal policies, in the interest of both the Member States concerned and the euro area as a whole.

6. 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?

In general, the monetary policy strategy should always evolve in a way that best serves the ECB's mandate. As quite some time has passed since the last strategy review in 2003, it would be worth collecting lessons from the financial crisis as regards changes in the macroeconomic environment and inflation process. It could also consider how the ECB's monetary policy can best support the general policies in the European Union, such as sustainable and inclusive growth, without prejudice to its primary objective of maintaining price stability.

As regards the monetary policy implementation or operational framework, central banks have made a lot of adjustments to the way they implement their monetary policy in response to the global financial and economic crisis, in particular by introducing unconventional measures. But also financial markets have undergone significant changes, driven by developments in the regulatory environment, market infrastructures and financial intermediation. In this context, it will be important to also review how to operate and implement monetary policy, in particular to consider what elements should be retained in the longer run. In view of the fact that intermediation in financial markets and the regulatory setting have changed, operational frameworks are likely to look different than those before the crisis, including the size and structure of balance sheets and the instruments with which to implement the monetary policy stance.

7. 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? What do you think about recent suggestions to interpret the 2% inflation target as a symmetric target? What do you think about calls for adding financial stability or asset price inflation as a second objective of the ECB's monetary policy?

The ECB policy reaction has been very forceful in combatting the risks of deflation that started to emerge in 2014. When the ECB launched its comprehensive policy package, in June 2014, headline inflation was well below 1% and declining. Today, headline inflation is about 1% and the June Eurosystem projections foresee it to be at 1.3% in 2019, 1.4% in 2020 and 1.6% in

2021. The probability that financial markets place on deflation has also declined relative to peak levels, and unemployment has fallen to the lowest levels since July 2008. The progressive tightening of the labour market is a signal that the policy measures of the ECB create the necessary conditions for price pressures to keep strengthening.

However, current inflation levels and the outlook on inflation as contained in the recent

Eurosystem staff projections are not in line with the ECB's inflation aim of "close to, but below,

2%". Hence – and also in the wake of global headwinds weighing on the euro area economic outlook – it remains appropriate for the ECB to provide an ample degree of monetary policy accommodation to support the expansion of the economy and the convergence of inflation to its aim in a sustained manner. In this regard, the recent clarification that the ECB's inflation aim is symmetric is important. It implies that the ECB is as committed to fight inflation above its inflation aim as it is to fight inflation below that aim. In fact, inflation can deviate from the aim in both directions, so long as the path of inflation converges back towards the aim of "below, but close to, 2%" over the medium-term policy horizon. It thus underlines the ECB's determination to pursue its inflation aim over the medium term.

At the same time, while the ECB should maintain an accommodative stance, other policy areas must contribute more decisively in order to reap the full benefits from the monetary policy measures.

As regards the introduction of additional objectives, the Treaty on the Functioning of the European Union clearly establishes price stability as the primary objective of the ECB. While price stability and financial stability are inherently interlinked and tend to be mutually reinforcing, two different objectives warrant the use of two different sets of instruments. The objective of monetary policy remains the safeguarding of medium-term price stability. The main task of macro-prudential policy is to address risks to financial stability to increase resilience of the system against shocks and to ultimately curb the financial cycle, so that the risk of financial crises occurring is reduced and real economic effects of financial crises are dampened.

In general, the two policy areas interact, and their effects on each other have to be considered. Macro-prudential policy influences credit conditions, and thereby also feeds back into the overall economy and, hence, the outlook for price stability. Monetary policy can, in the pursuit of price stability, affect financial risk via a number of transmission channels. Therefore there are positive synergies of having monetary policy and macro-prudential policy within one institution.

8. What is your view on the latest decisions of the ECB Governing Council, in particular concerning forward guidance on key interest rates which are expected to remain at the current level at least until the first half of 2020?

Economic growth in the euro area has been moderate while persistent uncertainties – mainly related to geopolitical factors, the rising threat of protectionism and vulnerabilities in emerging markets – have been weighing on economic sentiment. As a result, inflationary pressures have remained muted and both realised and projected inflation rates have been persistently below the levels that the Governing Council considers as being consistent with its aim.

Against this background, the latest decisions of the ECB's Governing Council such as its forward guidance on interest rates are in my view correctly aimed at preserving the very accommodative financing conditions for firms and households that are needed to support economic growth and ultimately, push inflation higher.

In particular, the decision to adjust the forward guidance on key interest rates provides accommodation through better anchoring market expectations about the expected interest rate path and lowering uncertainty. There is a date-based element in the forward guidance formulation – that interest rates are expected to remain at their present or lower levels "at least through the first half of 2020", which ensures that the accommodation is not weakened by market participants believing that interest rates could increase before this date. But it also entails a state-based element – that rates will remain at present or lower levels "in any case for as long as necessary to ensure the continued sustained convergence of inflation to the aim over the medium term". This means that the ECB's monetary policy is data-dependent and will evolve according to the inflation outlook.

As emphasised by the ECB, the forward guidance on policy interest rates, combined with the reinvestments of the sizeable amount of purchased assets and the new series of targeted longer-term refinancing operations, provides the significant monetary policy stimulus, which is needed to underpin the convergence of euro area inflation to the ECB's aim. Given the current inflation outlook, a highly accommodative stance of monetary policy will likely still be needed for some time.

9. How would you respond to the criticism of low interest rates and the effects of low interest rates? 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 has a primary objective of maintaining price stability. The current monetary policy measures were introduced as a response to the post-crisis conditions in order to achieve the inflation aim.

Low interest rates – together with the other monetary policy measures adopted – have contributed to the disappearance of deflationary risks and to supporting economic growth and employment creation.

However, it is clearly important to continue monitoring the possible side effects from accommodative monetary conditions not only in relation to the transmission of monetary policy but also to financial stability.

When it comes to understanding the impact of negative interest rates on euro area citizens, it is important to have a comprehensive approach looking at all the mechanisms at play. On the one hand, banks may decide to pass the negative deposit rate on to depositors, lowering the interest rates the latter get on their savings. On the other hand, the same depositors are also consumers, workers, and borrowers. As such they benefit from stronger economic momentum, lower unemployment and lower borrowing costs. All things considered, in the absence of the unconventional monetary policy adopted by the ECB – including the introduction of negative interest rates – euro area citizens would be, overall, worse off.

With regard to the impact of negative rates on banks' profitability, empirical analysis suggests that the negative effects on banks' net interest income have been so far more than offset by the benefits from more bank lending and lower costs for provisions and impairments due to the better macroeconomic environment, which to a significant extent is a result of accommodative monetary policy. Nevertheless, it is important to monitor whether adverse side effects may emerge in the future, the longer low interest rates are in place and use the available micro- and macro-prudential policy toolbox as necessary.

Overall, the low-yield environment needs to be understood in the context of the protracted decline in real yields since the 1980s. It is not unique to the euro area. It largely reflects more structural factors such as a slow-down in productivity growth, rising savings in anticipation of longer retirement periods, and safe-asset scarcity.

10. 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 conditions across euro area countries were indeed very heterogeneous during the financial and sovereign debt crises, with serious implications for the transmission of the ECB's monetary policy. This is why, in mid-2014, the ECB launched the so-called "credit easing" package of monetary policy measures. Following the introduction of these measures, bank lending rates in the euro area have declined substantially: according to ECB estimates, the asset purchase programme (APP) and the cuts in the deposit facility rate resulted in a reduction of around 50 basis points in bank lending rates to companies since June 2014 Moreover, the pass-through of market rates to bank lending rates has become considerably more homogeneous across euro area member states. In all countries, bank lending rates for firms and households are currently at or around historically low levels. In addition, bank lending conditions (as indicated in the euro area bank lending survey) continue to be favourable and supportive for loan growth.

These favourable financing conditions, to which the ECB's monetary policy measures have contributed, have supported the recovery in bank loan growth. Since mid-2015, the volumes of loans to companies started growing again with positive rates and ECB analyses conclude that almost half of the annual growth in such volumes in the third quarter of 2018 can be associated to the benefits of the APP. Still, while lending conditions are favourable in all euro area countries, bank loan growth remains heterogeneous across countries. This is partly owing to countries being in different phases of the business cycle and the differentiated use of alternative financing instruments by firms, such as debt securities issuance.

Looking beyond bank lending, debt financing of euro area firms has continued to be moderate. Despite very low lending rates, it seems that firms have not started to re-leverage following the necessary deleveraging of the corporate sector in the aftermath of the crisis.

Overall, while monetary conditions and access to credit are favourable across euro area countries, some differences in credit growth remain due to a variety of factors, such as differing demand for credit, general uncertainty, and differences in competitive pressures or institutional features (like different legal systems), which may have an impact on actual credit conditions across borrowers, sectors and countries. Nevertheless, in a monetary union it is still appropriate for lending conditions to reflect the characteristics of borrowers and these differ across countries. This is not necessarily a problem for monetary policy and is also seen in other currency areas.

11. Disparities in economic performance within the EMU have increased over the past decade.

Looking ahead, several EU Member States are preparing to join the euro area. How do you foresee avoiding further divergences between euro area Member States over the coming decade in light of the economic conditions in candidate states? What is the preferred economic scenario of euro area enlargement?

The picture on the evolution of economic disparities within EMU over the past decade is nuanced, depending on the metrics used and across countries.

From a monetary policy perspective, what matters most in a common currency area is cyclical synchronisation. It allows the single monetary policy to operate effectively and fulfil its stabilising function across members. And in fact, the cyclical dispersion among euro area economies has decreased over time, to the extent that euro area members now enjoy a high degree of synchronisation in their business and financial cycles. At the same time, looking at real convergence – i.e. to what extent lower-income euro area members have been catching up with higher-income ones in per capita income terms – the track record is decidedly mixed. Whereas the most recent euro adopters, especially the Baltics, have seen income disparities vis-à-vis their higher-income peers shrink, there has been little to no convergence among the original set of euro area members, with the exception of Ireland. While monetary policy can operate effectively across income differences, from a citizens' perspective, it is economic growth and improvements in the standard of living that ultimately matter.

Evidence suggests that economic disparities in Europe can to a large extent be traced back to technology and globalisation shocks, the impact of the global financial crisis, as well as country-specific structural weaknesses.

The euro is also the most tangible sign of European integration. Currently it is the official currency for 19 EU Member States and I expect that and would welcome if the remaining EU Member States that are still outside of the single currency were to join it at some point. As established in the Treaty, all EU Member States without an opt-out – notably seven non-euro area countries except for Denmark and, of course, the UK – are expected to adopt the euro sooner or later.

In my view the required economic reforms for euro area enlargement should be tailored to each individual Member State. Every country wishing to join the euro should introduce the necessary measures and reforms along with its own path, modalities and timing. The timing ultimately depends on three main factors: political will as also reflected in the national euro adoption strategies; people's ownership of the project; and economic readiness.

There is now a new dimension to the introduction of the euro that we have to take into account and that is that euro adoption now automatically implies participation in the banking union. Therefore, I support the newly established policy that Member States joining Exchange Rate Mechanism II (ERM II) should also enter into close cooperation with ECB banking supervision.

12. How do you see the sequencing/timing of ECB monetary policy normalization, also given the international context, in particular with interest rate levels in the US diverging considerably from European ones? Which effect do you expect the re- investment strategy of the Asset Purchase Programme (APP) to have on the markets? How will this affect the toolkit of monetary instruments if the overall conditions deteriorate?

The ECB has provided the market with forward guidance on policy rates and reinvestment of the principal payments from securities purchased under the APP. The current forward guidance already sets out sequencing of these two monetary policy instruments. Specifically, reinvestment will continue for an extended period of time past the date when the ECB starts raising its key interest rates.

In taking monetary policy decisions, both domestic and international economic and financial data must be thoroughly analysed. Monetary policy should remain data-dependent and should be guided by the euro area inflation outlook. At the current juncture, “policy normalisation” is premature. Currently, uncertainties related to geopolitical factors, protectionist pressures and vulnerabilities in emerging markets mean that the risks to the outlook are predominantly tilted to the downside and that inflationary pressures remain muted. Significant monetary accommodation will be needed for a prolonged period of time. It is therefore important to keep all policy tools on the table in order to respond appropriately and proportionately if the medium-term inflation outlook continues to fall short of the ECB’s aim.

13. How will you ensure transparency regarding the implementation of the APP? Do you agree that more transparency could be provided on the Asset-Backed Securities Purchase Programme (ABSPP) and the third Covered Bond Purchase Programme (CBPP3)?

Transparency is vital for good governance but also for a good public understanding of the ECB’s monetary policy. At the same time, central banks have to be careful that the information they provide does not undermine the effectiveness of their policies.

There is no doubt that unconventional monetary policies, and in particular the APP, gave rise to a demand for higher transparency. The ECB positively responded to it (e.g. publishing from the beginning information about its holdings with a weekly and monthly frequency) and over the past years the transparency has been further increased, I understand, also thanks to the feedback received by the European Parliament.

Moreover, the ECB has a higher degree of transparency compared to some other central banks. For instance, it publishes (and updates weekly) very detailed information - the so-called international securities identification numbers, ISINs - about the individual bonds the Eurosystem owns in certain portfolios.

When discussing further actions to improve transparency, it is very important to weight the benefits of publishing more detailed information against the impact on the effectiveness of the ECB’s monetary policy. This impact may vary depending on the way particular segments of the financial markets work and may thus lead to a differentiated approach depending on the purchasing programme.

14. 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?*

The ECB has communicated that its monetary policy will remain accommodative through the forward guidance on policy rates and the reinvestments. This forward guidance aims to ensure that possible changes to short-term policy rates controlled by the ECB are well understood by market participants and should not become a source of disruptive effects. It provides markets with a clear reaction function of the ECB. In particular, it ensures that a weakening outlook would be reflected in more supportive forward interest rates and, hence, easier financing conditions.

In the case of Member States, sound national fiscal policies are the best insurance against a potential increase in borrowing costs. Indeed, many euro area countries used the period of favourable economic and financing conditions to rebuild strong underlying budgetary positions, which provide room for counter-cyclical fiscal policy. It is decisive that all Member States demonstrate their commitment to sustainable policies in recognition of the EU fiscal framework. Moreover, completing the EMU has to remain a priority.

15. How in your view can the ECB contribute to economic growth, ecological transition and full employment while fully complying with its primary objective to maintain price stability? How would you regard a change in the mandate in the ECB more aligned with the FED criteria? Are there in your view possible 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 the effectiveness of monetary policies and vice-versa?

The mandate of the ECB is enshrined in the Treaty on the Functioning of the European Union, Article 127(1). According to this provision, the primary objective of the ECB and of the single monetary policy is to maintain price stability. Without prejudice to this primary objective, the ECB supports the economic policies in the Union with a view to contributing to the Union objectives. As the mandate of the ECB is defined by primary Union law, it can be changed only by the Member States by means of a Treaty amendment.

The ECB monetary policy strategy makes clear that price stability has to be maintained over the medium term. This medium-term orientation allows for minimising fluctuations in real economic activity in the situations in which monetary policy may face a trade-off, such as responding to an oil price shock that temporarily increases inflation at a time when economic growth is declining. Therefore, the differences with the Fed mandate may in practice be less significant.

Maintaining stable prices over the medium term is also a crucial pre-condition to achieve a favourable economic environment and a high level of employment.

Growth in the long run, however, depends on factors other than monetary policy, such as productivity, and it is supported by policies that encourage innovation and investment. Structural reforms in euro area countries are important to boost euro area productivity and growth potential, reduce structural unemployment and increase resilience. Structural reforms can therefore empower monetary policy in the future, while the current highly accommodative stance of monetary policy reduces the burden of introducing such reforms.

With regard to the ecological transition, the discussion on whether, and if so how, central banks and banking supervisors can contribute to mitigating climate change is at an early stage but should be seen as a priority. The ECB is already engaging in such discussion, for example as a member of the Network on Greening the Financial System (NGFS). My understanding is moreover that the ECB has focused on supporting market participants, legislators and standard- setting bodies in identifying the risks emerging from climate change and providing a clear framework to reorient financial flows and reduce such risks.

16. What are your views on the negative impact of the ECB policy on climate change? What could be improved to ensure monetary policy does not favour pollutant firms?

The main objective of the APP has been to bring inflation back in line with the ECB’s price stability objective. To provide a wide pool of purchasable securities, the eligibility criteria for the APP are necessarily broad. This has supported the effectiveness of the programme while at the same time avoiding distortions to specific market segments.

For the implementation of the APP, the ECB has relied on the principle of market neutrality, without any positive or negative discrimination to favour or penalise specific assets on the basis of environmental or other criteria. For the CSPP, the purchase of securities issued by non-bank corporations has reflected proportionally the market value of all eligible bonds in terms of sectors of economic activity and rating groups. I understand that favouring or penalising specific assets on the basis of environmental criteria was so far not possible as objective criteria had not been defined. However, initiatives of the European Commission on sustainable finance to create a harmonised definition of green assets, i.e. a so-called taxonomy, which I understand the ECB is actively supporting, will improve transparency and facilitate a more objective identification of what constitutes a green financial instrument. As soon as such a taxonomy is agreed, the ECB will need to assess whether and how it can apply it to its APP.

As regards green bonds, in the current circumstances and market conditions, there are at least two factors that limit the ECB’s ability to purchase primarily such bonds as part of its APP. First, the green segment is still a relatively small portion of the financial asset universe, despite the fast growth seen in recent years. Thus, purchasing large amounts of these assets can lead to severe distortions in this particular market segment. Second, the classification of what constitutes a green asset is still in its infancy, thus complicating the identification of which green assets to buy.

Despite the existing limitations and the absence of an explicit environmental target in the APP, the ECB has purchased green bonds under both the CSPP and the PSPP. While the overall amount of green bonds held by the ECB is relatively small, evidence suggests that ECB purchases have contributed to reduce yields of green bonds, supporting the issuance of such bonds by non-financial corporations.

17. 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 Internal Market? How do you think possible distortive effects of the CSPP can be minimised?

Under the CSPP, the Eurosystem buys securities of non-bank corporations to facilitate the pass-through of its asset purchases to the real economy. The CSPP is an integral part of the Eurosystem’s APP, which has materially contributed to the euro area economic expansion, helping to ensure that inflation converges to its aim.

Risks from the deterioration of eligible issuers’ credit quality cannot be totally excluded from the CSPP. However, the high level of diversification in the CSPP implies that, although downgrades and losses on individual names might occur from time to time, overall such losses are limited by design. Moreover, my understanding is that the Eurosystem has an extensive risk management framework in place to closely monitor the risks associated with the CSPP. The Eurosystem’s balance sheet is therefore effectively protected without jeopardising the achievement of the CSPP’s policy goals.

In pursuit of its primary objective of maintaining price stability, the Eurosystem is mandated to act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources. The broad range of bonds eligible for the CSPP supports the effectiveness of CSPP as a monetary policy tool, while maintaining a level playing field for all market participants and avoiding undue market distortions. In addition, the ECB has pointed out that any potential distortive effects on competition within the single market are further mitigated by virtue of CSPP purchases reflecting proportionally the nominal outstanding amount of eligible bonds.

When implementing the CSPP, in my view, these are good arguments for continuing this approach, which allows minimising the impact on relative prices within the eligible universe of bonds and unintended side effects on market functioning.

18. Do you think the CSPP should integrate the Paris agreement and the Sustainable Development Goals (SDG)? Do you think the ECB should bring its asset purchases in line with the UN's sustainable development goals and the Paris climate agreement? Do you see room for the ECB to integrate the transition to a low-carbon economy, a key policy aim of the EU, as a secondary objective of monetary policy?

The sustainable development goals cover a broad range of topics aiming at improving living conditions across the world. Working to achieve those goals is indispensable for all countries. Central banks within the remit of their mandate, however, may only be able to address a limited subset of these goals.

I know that last year, the ECB joined the NGFS and is also a member of the European Commission’s Technical Expert Group on Climate Change. This shows that the ECB recognises the challenge posed by climate change and supports market participants and standard-setting bodies to address climate related risks.

With regard to its APP, the Eurosystem has bought about €2.5 trillion of securities, most of which were issued by governments. The CSPP share of overall APP purchases is, in comparison, relatively small. In several instances the ECB has mentioned that purchases are guided by the market neutrality principle in order to avoid market distortions. However, as mentioned before, this does not preclude that the ECB will in the future apply a taxonomy - currently under development by the European Commission - of what constitute green assets.

This said, the ECB has already purchased several “green bonds” under the PSPP and CSPP and should continue purchasing them given their compliance with the programmes’ eligibility criteria.

An ECB analysis in one of its Economic Bulletins has shown that the CSPP has not only contributed to reduce yields of “green bonds” but also supported their issuance by non-financial corporations. Given that the universe of climate-related bonds is growing but still relatively small in size, limiting purchases to only these bonds would impact the effectiveness of achieving the ECB’s objective. In this respect, legislators can also play a role in developing the universe of climate-related bonds as part of policy initiatives that the Commission might initiate in the current legislature.

19. Under your lead, what role would the ECB play in the Network for Greening the Financial System? Do you have any intentions of acting on the network for greening the financial system

(NGFS) recommendations in its first comprehensive report?

Climate change is one of the most pressing global challenges facing society today. In my view, all public and private institutions should act, within their mandates, to address it. Under my leadership, the IMF has started to explore how it could help address climate change, for instance by investigating how fiscal policies could be used to contribute to the objectives of the Paris Agreement.

I welcome the fact that the ECB collaborates with other central banks and supervisors globally in the Network for Greening the Financial System (NGFS). Central banks and prudential supervisors can contribute to facing the challenges which climate change poses and the work of the NGFS – as the first report demonstrates – is essential to understand how to best do it. In my view, the ECB should contribute substantively to this effort and devote significant resources to this process. This includes taking seriously the recommendations of the group and acting on them wherever possible without undermining the ECB's price stability mandate and other objectives.

20. What is your view on the steps needed to finance the European Green Deal? What is the role of the public sector?

Climate change is without doubt one of the existential threats of our times. It is a challenge that requires European and international cooperation as no country can solve it alone. Major policy initiatives will be needed to combat climate change, supporting both climate mitigation and adaptation policies.

In that sense, the provision of abatement and mitigation measures would imply - as also recognised by the IMF in May of this year – a need for either additional government expenditure or the crowding out of other public investment public spending. At the European level, first steps have been taken through the support provided by the EU budget and the European Investment Bank (EIB). The Commission proposal of May 2018 to further increase the share of the EU budget devoted to support climate change policies in the next multi-annual financial framework and the European Parliament's request to go even beyond will certainly help to further mobilise needed financial resources to put EU climate goals into practice. I personally hope that the "Green Deal for Europe" announced by the Commission President- elect before the European Parliament can be a game-changer in upgrading the EU's role in funding sustainable projects and redirect public investment towards low-carbon solutions.

In addition to channelling more public funds towards climate investment, it would be essential that policy makers launch new initiatives to attract further private investment. It is undeniable that a large amount of private capital is needed to support the necessary economic transformation needed to meet the challenge of a transition to a greener economy. Public policies should thus also focus on crowding-in private resources, supporting technological innovation in new energy and efficient technologies and addressing challenges of internalising environmental externalities in private sector decisions.

In view of the major impact that climate change may have on our societies, also central banks and prudential supervisors need to take climate change into account and reflect on the appropriate response to climate change. Indeed, the ECB is an active member of the NGFS and that, together with other national central banks of the Eurosystem, it is also actively supporting the European Commission's sustainable finance agenda. Such agenda could ultimately enhance the pricing of climate change and transition risks and promote the reorientation of financial flows towards sustainable investment products. Looking forward, I expect that the ECB will continue this work, providing, within its mandate, its own contribution to the achievement of the objectives set out in the Paris Agreement.

However, we should also be realistic. The most appropriate, first-best policy response and initiatives primarily fall outside the realm of central bank policies. While the ECB contributes to sustainability objectives within its mandate, it is up to the political authorities to define and decide on the appropriate regulatory and fiscal measures to address these challenges.

21. Would you preclude that the ECB's asset purchase programmes buy environmentally and socially unsound activities as defined in the EU taxonomy framework?

The ECB, within its mandate, is supporting various initiatives to fight climate change both at the EU and global level. Green assets, while rapidly developing, are still a relatively limited asset class and a taxonomy of what constitutes a green asset is still in its infancy. The ECB is supporting the development of such a taxonomy and once it is agreed, in my view it will facilitate the incorporation of environmental considerations in central bank portfolios.

The ECB has already purchased several "green bonds" under the PSPP and CSPP and will continue purchasing them – given their compliance with the programmes' eligibility criteria – and thereby continue reducing the financing cost for companies with green projects.

22. What is your view on the implementation of the Emergency Liquidity Assistance (ELA)?

What could be improved in the decision-making process on granting ELA?

Emergency Liquidity Assistance (ELA) played a critical role in maintaining financial stability during the financial crisis by addressing liquidity shortages of individual solvent institutions.

Currently, the responsibility for the provision of ELA lies largely at the national level with the national central banks concerned. It seems that this approach has worked reliably so far. Nevertheless, against the background of the progress towards the banking union, continuing financial integration and the ECB's role as the competent authority for supervising all (significant) banks in the euro area, one could foresee that – similarly to monetary policy – ELA decisions could be taken centrally, but the actual liquidity provision would be conducted via the national central banks. This aspect has also been raised by the IMF in its euro area financial sector assessment programme. Ultimately, of course, this will be a matter for the Governing Council to discuss.

23. 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? What are your views on Facebook's plans for new digital currency Libra? What would you consider a proper regulatory framework for virtual currencies?

Thus far, existing virtual currencies such as bitcoin, also referred to as crypto assets, are deemed to have had no tangible implications for monetary policy and financial stability. This assessment reflects the small size of crypto-asset markets relative to the financial system and their limited interconnectedness with the regulated financial sector and the economy. In relative terms, the total market capitalisation of crypto assets globally currently stands at around 7% of the market capitalisation of the so-called "FAANG" (Facebook, Apple, Amazon, Netflix and Google), or 2% of euro area GDP and 3% / 2% of M1 / M3 respectively. This may change as the market continues to evolve and as crypto assets themselves evolve. The ECB and central banks in general clearly should closely monitor and assess developments and contribute to the ongoing international work on policy responses.

The emerging stablecoin projects, of which Facebook's Libra initiative is an example, are a private-sector attempt to improve existing financial services and can bring benefits with respect to efficiency of cross-border payments and for financial inclusion. Such projects, and in particular their underlying blockchain or distributed ledger technology, may help bring convenience to the users and opportunities from an efficiency and safety perspective, in particular in countries where there are currently no efficient market infrastructure services in place. While crypto assets such as stablecoins and the blockchain technology on which they are based can help reap opportunities in particular in the field of cross-border payments, one has to bear in mind that their wide-spread usage could also pose risks to monetary policy, financial stability and the smooth functioning of and public trust in the global payment system. I am looking forward to the final report of the G7 Ministers and Governors working group on stablecoins, to which the IMF, as a member, is also contributing. They will carry out an analysis of benefits and risks of stablecoins in coordination with the G20, the Financial Stability Board and other relevant standard setting bodies.

As for the regulatory framework, clearly a balance needs to be struck between ensuring that these activities do not give rise to risks to financial stability while allowing for financial innovation. Lessons from existing regulation include that if the activity is inherently the same, and the risk is the same, then the regulation should be same as well. This would also reduce the risk of regulatory arbitrage where innovation does not lead to new types of services, but merely attempts to circumvent regulation. When considering regulatory approaches to complex stablecoin initiatives, it is essential to look beyond individual components and assess the entire arrangement, what some might call the "ecosystem."

24. 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 Central Counterparty Clearing houses (CCPs)?

Well-functioning payment systems are essential for the stability and efficiency of the financial sector and the economy as a whole as well as for monetary policy, which critically depends on the smooth real-time settlement of large value payment flows. This is why central banks around the world conduct payment systems oversight to ensure the safety and efficiency of payment systems and why it is one of the Eurosystem's basic tasks to promote the smooth operation of payment systems.

Central banks of issue, such as the ECB for the euro, are equally concerned with the safety and efficiency of central counterparties (CCPs). CCP liquidity problems could affect the smooth functioning of large value payment systems and repurchase markets, with potentially serious risks for monetary policy implementation. In addition, central banks may be asked to provide emergency lending to CCPs and/or to CCP clearing members, which can be credit institutions and thus monetary policy counterparties. This could also impact the attainment of monetary policy objectives. These concerns have intensified with the dramatic increase in scale, systemic importance and cross-border nature of CCPs in recent years, and are also relevant in the context of the UK's planned departure from the EU.

Against this background, EU institutions have engaged in a reform of the regulatory framework for CCPs (EMIR2), with a view to strengthening the recognition framework for third-country CCPs and the supervisory framework for EU CCPs. Within its mandate, the ECB stands ready to contribute to the implementation of the revised regulatory framework, including through the consultations and cooperation with central banks of issue foreseen in that framework. Indeed, managing the risks posed by CCPs to the ECB's basic tasks should remain a fundamental priority, which could include revisiting the issue of central bank regulatory involvement in the future.

25. What are the risks related to Brexit for financial stability and how should the ECB prepare for those risks?

While an orderly process would be preferable for both the EU and the UK, a no-deal Brexit on 1 November remains a possibility. I am confident that EU authorities, including the ECB, have prepared for this scenario. In its most recent Global Financial Stability Report (March 2019), the IMF pointed out that authorities have taken important steps to reassure markets and that risks had been reduced.

More specifically, in the field of central clearing, the risks of a cliff-edge have been mitigated through a temporary equivalence decision by EU authorities for UK CCPs. A time-limited equivalence decision by EU authorities has also been adopted for UK central securities depositories. Similarly, UK authorities have put in place a temporary permissions regime which will allow European Economic Area firms to continue operating as previously for up to three years after the UK's exit.

Moreover, the Bank of England and the ECB have activated their currency swap agreement. This enables the Bank of England to offer euro liquidity to UK banks on a weekly basis. The Eurosystem indicated that, on the basis of the same agreement, it would also stand ready to lend sterling to euro area banks, if the need arises.

Nonetheless, while authorities have made significant efforts to prepare, tail-risks could materialise in a no-deal scenario, and these could also interact with other existing risks. An adverse scenario of this nature, if it were to occur, would probably materialise suddenly and might lead to substantial financial market volatility and increases in risk premia. This might have an impact on euro area financial conditions. More broadly, a no-deal Brexit could lead to heightened macroeconomic risks if it were to interact with other global shocks, such as escalating trade tensions. The impact of such an outcome might be concentrated on particular countries with significant ties to the UK, and might be amplified by any lack of preparedness among actors in the financial sector and certain key sectors of the real economy. In this context, it should be noted that the ECB has repeatedly stressed that banks should plan for all possible contingencies, including a no-deal scenario leading to a hard Brexit with no transition. Banks need to be operationally ready and keep in mind that there is no guarantee of a transition period.

Overall, I am confident that the measures taken so far have limited the impact that the UK's departure from the EU could have on access to financial services in the euro area. The private sector has made progress in certain areas to mitigate Brexit-related risks. Still, the additional time ahead of 1 November should be used by both financial and non-financial firms to continue to prepare for all possible outcomes. The European authorities, including the ECB, should continue to closely monitor developments in the run-up to 1 November, and take action if necessary.

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

The euro area economy is encountering global headwinds and this is feeding through to the growth outlook. The euro area growth momentum has slowed and the balance of risks to the growth outlook is tilted to the downside. Inflation remains subdued. In this environment, it is essential that monetary policy continues to be guided by the inflation outlook.

Specifically, the ECB has been clear about the need for a highly accommodative stance of monetary policy for a prolonged period of time, as inflation rates, both realised and projected, have been persistently below its aim. Accordingly, the Governing Council indicated that it stood ready to adjust the policy stance to ensure that inflation moves towards its aim in a sustained manner if the medium-term inflation outlook continues to fall short of the ECB's aim. I fully stand by this position. The ECB has a broad tool kit at its disposal and must stand ready to act, if needed, in pursuit of its price stability mandate.

27. 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? Do you think we can return to conventional monetary policy without jeopardizing growth and inflation targets or do you think a new policy mix is required?

The ECB has a comprehensive tool kit and is able to respond flexibly to contingencies that affect the outlook for price stability. The ECB's non-standard monetary policy measures have provided substantial support to the euro area economy. These measures have thus far proved to be powerful, and can be extended and adjusted depending on the needs.

Looking ahead, the ECB is able to complement conventional monetary policy with other non-standard measures in pursuit of price stability. The precise mix of instruments deployed will thereby have to depend on the nature of the shocks affecting the outlook for inflation as well as on financial market conditions.

28. The slowdown in the global economy pushes towards an easing of monetary policy.

> *Quantitative Easing can be a useful tool but there is little room for manoeuvre. Indeed, due to the limit framework of the programme, some NCBs, e.g. the Bundesbank, would have difficulty buying bonds in line with the rules of engagement envisaged by the programme. Do you think that abandoning the capital key rule could help in this regard?*

As regards future monetary policy steps, the ECB's forward guidance is clear that monetary policy will depend on the inflation outlook. In this regard, the degree of accommodation will be determined by what is needed to ensure inflation converges to levels that are below, but close to, 2% over the medium term.

In the past the ECB has shown that it has no shortage of tools available. The APP has been an effective tool to mitigate the risk of a sustained period of deflationary pressure, and the ECB's forward guidance has successfully assured markets of the ECB's intentions to keep interest rates at present or lower levels, as required by developments in the inflation outlook. All actions are confined by the Eurosystem's monetary policy mandate, and this will also guide the options for potentially restarting net asset purchases.

The ECB's actions should be proportionate to fulfil the ECB's mandate and achieve its objectives. The European Court of Justice (ECJ) has recently confirmed the flexibility of the instruments embedded in the ECB's mandate. This implies broad discretion in adapting tools to ensure the continued sustained convergence of inflation to levels that are consistent with price stability.

29. What is your view on the theory that Central Banks could provide an unlimited supply of money in order to finance growth?

Under current circumstances, the ECB should – and does - provide an ample degree of monetary policy accommodation to support the expansion and the convergence of inflation to the aim of "below, but close to, 2%". However, this assessment is contingent on current economic conditions and it does not mean that the ECB should provide in general an unlimited supply of money in order to finance growth.

To the contrary, this would go against the notion of central bank independence and it would be inconsistent with the ECB's mandate to maintain price stability.

30. How do you see the difference between monetary and fiscal policy and the role of a Central Bank in this context?

Broadly speaking, monetary policy is a stabilisation tool that aims to smooth short-term cyclical fluctuations in the economic and inflation outlook. It is largely data-driven. Unlike fiscal policy, it cannot impact an economy's longer-term potential. By contrast, fiscal policy, while also a useful stabilisation tool, typically takes longer to be implemented and feed through to the real economy. However, especially through public investment, it can have a transformative impact on the economy.

The institutional architecture of the EMU recognises that monetary and fiscal policies pursue distinct objectives, and are carried out by different policymakers within their respective mandates. While the ECB's monetary policy measures have the primary objective to ensure price stability, fiscal objectives, including ensuring sustainability of government debt, are the responsibility of the governments of the Member States, as also acknowledged in the EU fiscal framework.

31. How do you evaluate the existing economic governance framework, its implementation and enforcement? What kind of reforms to this framework do you deem necessary? Do you think that the current framework encourages pro-cyclical fiscal policies? Does it set the right incentives for public investment? What would be required to deepen the EMU?

The common economic and fiscal governance framework aims to ensure that national fiscal and structural policies are conducive to the smooth functioning of EMU. Compliance with the fiscal rules is necessary to ensure sustainable public finances at the Member State level which are a prerequisite for a smooth functioning of EMU. Moreover, adherence to the Stability and Growth Pact should support the build-up of fiscal space in good economic times which can then be used to provide stabilisation in bad times. Implementation of the Country-Specific Recommendations and adherence to the Macroeconomic Imbalance Procedure is important for higher growth, preventing and correcting imbalances and resilience of the Member States and the euro area as a whole.

That being said, I also believe that the European fiscal framework can be improved, both in terms of its design and its implementation Ultimately, changes should aim to increase national ownership and at the same time predictability of the framework over time and across countries.

In the past, there has been a tendency for pro-cyclical fiscal policies in the euro area in good as well as in bad times. A reform of the fiscal rules should therefore aim at strengthening incentives to build fiscal buffers in good times so that fiscal space is available for macroeconomic stabilisation during recession. And the revised framework should be sufficiently simple to be transparent, credible and enforceable. In this regard, a stronger focus on expenditure-based rules linked to a debt anchor could be an avenue for reform. Pursuing sound public finances and avoiding pro-cyclical fiscal policies in good times can provide budgetary room for protecting public investment in adverse times. The upcoming "two pack" and "six pack" review will be an opportunity to assess the effectiveness of the current fiscal framework and discuss options for reform.

Yet, an improved fiscal framework alone is not enough to ensure a smooth functioning of EMU. A central fiscal capacity for macroeconomic stabilisation for the euro area is an important feature of the EMU reform agenda. The instrument should be able to provide timely and adequate support in the event of economic shocks from the central bank's perspective is particularly needed in area-wide deep recessions. Together more effective coordination of national fiscal policies, such a central fiscal capacity could help steer the aggregate euro area fiscal policy stance and ensure a more appropriate macroeconomic policy mix.

As regards structural reforms, despite some steps to strengthen the framework, it could still better facilitate the implementation of important policy measures at the national level. Economic reforms that enhance competitiveness and support investment, for instance by fostering digitalisation and entrepreneurship, are essential to lift potential growth. In supporting such reforms, the envisaged euro area budgetary instrument for convergence and competitiveness can be seen as a step in the right direction.

32. Do you think that the euro area needs a European Safe Asset not only to help stabilise the financial markets and allow banks to reduce their exposure to national debt, but also as a way to facilitate the correct transmission of the monetary policy? How could this be achieved?

Assets with very low risks, often called safe assets, are vital to the functioning of the financial system and the efficiency of bank intermediation.

If well-designed, a common sovereign safe asset would be beneficial as it could contribute to financial stability and financial integration. A safe asset that is not sensitive to idiosyncratic sovereign risk and appreciates in times of crisis could help mitigate the negative feedback loops between sovereigns and domestic banks – as well as flights to safety - which were observed during the last crisis. A common sovereign safe asset of sufficient volume would also facilitate efficient capital allocation within the monetary union and facilitate financial integration.

A common sovereign safe asset could further contribute to a more efficient implementation of monetary policy. Such an asset would avoid fragmentation and thereby contribute to a smooth transmission of the single monetary policy. A common sovereign safe asset would indirectly also contribute towards strengthening the international role of the euro.

For all its possible benefits, it has to be acknowledged though that by having implications for sovereign risks and fiscal incentives a common safe asset is inherently a politically sensitive topic. Nor is it strictly necessary for undertaking important further steps in deepening EMU.

33. What is your view on the ongoing debate on the persistent high levels of public and private debt in the euro area? How do you see the possibility envisaged by the European Commission of a euro *area Treasury to access financial markets on behalf of its members to fund part of their regular refinancing needs?*

The euro area has seen a considerable decline of their public and private indebtedness at aggregate level over the last years. This has been supported by favourable economic and financing conditions, but in some cases also by prudent fiscal policy and reform progress that has increased potential growth. However, important cross-country differences and vulnerabilities remain.

In terms of figures, the euro area public debt-to-GDP ratio has come down from a peak level of 94.4% in 2014 to around 87% of GDP in 2018. While this level is relatively low compared to the US or Japan, the aggregate picture hides significant cross-country differences, with several Member States having recorded debt ratios at or above 100 % of GDP last year. Reducing debt ratios from these high levels, in line with the European fiscal framework, should be a policy priority not only because high debt affects negatively long-term growth and places a burden on future generations, but also because it leaves little fiscal space to cushion a downturn.

As regards private debt, the size and nature of deleveraging has been heterogeneous across countries. While the euro area private debt-to-GDP ratio has come down from a peak level of

147% in 2015 to around 137% of GDP in 2019-Q1, some countries (such as Luxemburg, Cyprus, or Ireland) still record very high debt levels. In some countries, economic structures and institutional arrangements appear not yet efficient enough to address the remaining debt overhang, which negatively affects potential growth and economic resilience. This highlights the importance of policies that can facilitate an orderly deleveraging of the private sector, most notably by addressing remaining impediments in the legal framework and capacity constraints in the courts, as well as by providing incentives for banks to move decisively with the workout of bad assets.

The creation of a euro area treasury is certainly an important aspect of the longer-term EMU reform agenda. Several tasks for such a treasury have been put forward in the reform debate, including fiscal and economic surveillance, crisis management, and the responsibility for a central fiscal capacity for macroeconomic stabilisation, which the euro area is still lacking.

While these are inherently political questions, in my view, the euro area institutional architecture needs to move towards more joint decision-making and a better coordination of economic and fiscal policies. In doing so, a euro area treasury would, of course, complement rather than substitute national policy-making.

34. What are your views on the criticism that the ECB's collateral framework is not gradual enough and relies too much on external credit rating agencies (CRAs)?

The Eurosystem has a statutory obligation to conduct its credit operations only against adequate collateral. Based on this, the Eurosystem has established a comprehensive risk management framework, comprising the collateral framework as well as the credit assessment framework. Under the collateral framework, the Eurosystem accepts a broad range of assets as collateral which serve to mitigate the financial risks the Eurosystem is exposed to. As a further risk- control measure, haircuts differentiate across a number of dimensions, including the types of assets, their credit quality, maturity, marketability and coupon structure. In addition, there are haircut add-ons that address more specific risks. Therefore, the collateral framework is already quite granular.

It is my understanding that the Eurosystem does not exclusively rely on credit rating agencies but also on in-house credit assessment systems of the national central banks and on internal ratings-based systems of counterparties. Recently, it also decided to phase out the use of rating tools, thus reducing the number of accepted external rating sources. More generally, the ECB has repeatedly expressed its commitment to the principle suggested by the Financial Stability Board that central banks should reduce their mechanistic reliance on external ratings, using tools such as an annual performance monitoring and ongoing due-diligence assessments for accepted credit rating agencies. The Eurosystem has also introduced more enhanced disclosure requirements for certain ratings that allow rating users to obtain a deeper understanding and form their own views of given ratings.

35. How do you assess the recent evolution of the USD/EUR exchange rate? 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? What are your views on the position expressed recently by President Trump on the ECB's monetary policy and its effect on EU-US trade? To what extent should trade considerations play a role in the conduct of monetary policy?

The exchange rate is not a policy target for the ECB, and it would therefore be inappropriate for me as candidate for the position of ECB President to comment on the level of the euro exchange rate or on recent related developments.

Generally speaking, from a monetary policy perspective it is of course important to monitor exchange-rate developments with regard to their possible implications for the inflation outlook. Similarly, global trade developments matter to a central bank as they determine the foreign demand for euro area goods and services, and thus affect the euro area economic outlook and, ultimately, the inflation outlook.

As regards risks of ‘currency wars’, I subscribe to the strong consensus in the international community to refrain from competitive devaluations and not to target exchange rates for competitive purposes. This consensus has been reiterated by G7 and G20 Ministers and Governors. The ECB’s monetary policy measures are and should remain solely geared towards ensuring the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

36. 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 has been pivotal in the aftermath of the global financial crisis in stabilising global financial markets, and providing coordinated fiscal and monetary policy responses. In that sense, the G20 was successful in avoiding a global economic depression. I engaged in many discussions at the G20 as French Finance Minister. When France took over its G20 presidency for the year 2011, I was Chairperson of the G-20 Finance Ministers and Central Bank Governors' meeting and I set in motion a wide-ranging work agenda on the reform of the international monetary system. Also the G20 leaders’ format, in which I had the privilege to participate in my former capacity as IMF Managing Director, has proven effective at coordinating global responses in times of economic and geopolitical uncertainty.

This said, today’s challenges still necessitate a strong and focused G20: We have not yet fully completed our financial sector reform agenda, the global economic cycle is maturing and many central banks act at a zero-lower bound while public finances in many countries are worse off than 10 years ago. On top, new challenges arise such as crypto assets/fintech and implications from digitalisation, to name just two. It remains important that we find global solutions to these challenges and the G20 is currently the best international format for discussing economic cooperation and coordination in crisis and non-crisis times.

Central banks interact in the G20 and participate in a number of G20 working groups, and they also cooperate in the G7. In addition, there are other fora in the context of the BIS, which are equally important and which have a membership which extends beyond G7 and G20 countries. As most main central banks are independent and follow their respective mandates, coordination among them is a rather rare event, but the continuous level of interaction is a prerequisite for coordinated action if deemed useful under specific circumstances.

37. Should the ECB take concrete steps to boost the euro as an international currency? If yes, which ones? How realistic do you believe it to be that JPY or CNY will challenge the euro as the second most important international currency? 'What would be the implications if this became the case?

The literature suggests that while the international relevance of currencies is primarily determined by historical developments and highly path-dependent, several other factors, such as the size and stability of the domestic economy, its role in international trade and finance, as well as geopolitical considerations also play a role. It is thus important to work on these factors to make sure that the euro continues to improve its international standing.

In this respect, the euro area has a number of assets on which it is possible to build on. As documented in the last ECB's report, over the past year the euro's share in global foreign exchange reserves has increased by 1.2% points reaching 20.7%. A positive increase has been recorded also when looking at the share in the international debt issuance and international deposits, as well as in the share in outstanding amounts of international loans.

I welcome the Commission initiative launched last year to strengthen the international role of the euro. I think the ECB has a role to play when it comes to support economic and financial stability through the pursuit of its price stability mandate. This in turn benefits the euro's use as a store of value beyond the euro area's own borders. More broadly, sound economic policies are important to make currencies more attractive globally.

Crucially, the international role of the euro could be further supported by a deeper and more complete EMU. The completion of the banking union and the advancement of the CMU can help strengthen euro area financial markets and thus make the euro more attractive to international investors. In this respect, the ECB's initiatives on market infrastructure and payments, which help increase efficiency and foster greater financial market integration in the euro area, can contribute to strengthening the international attractiveness of the euro.

38. What do you see as the main challenges and opportunities for central bank communication in the period ahead? Do you think the ECB should do more to address arguments against the euro?

Communication has become a core tool of central bank policy: it is essential for the effectiveness of monetary policy in steering expectations; it also helps to build credibility and ensure accountability. And it is instrumental to sustaining public trust in central banks and support for their independence and legitimacy.

It is encouraging to observe that central banks worldwide – including the ECB – have made great progress in becoming more open and transparent and communicating also beyond their traditional expert audiences. This is precisely where I see the new frontier in central bank communications: the general public. Central banks have to be understood by the people whom they ultimately serve. This is a key to rebuilding trust.

I believe the ECB can further enhance its communications, so as to make itself better understood and to explain why its actions matter to people and their lives. It would also be worthwhile to make greater efforts to reach out to groups in society that had not been traditionally in the focus of the ECB's communications, such as young people or civil society organisations, and to also listen more attentively to their concerns. There is great potential in connecting the ECB to the topics that are of particular concern to people, such as inequality, digital currencies or climate change – and in providing clearer answers on how they affect the ECB and how the ECB can contribute – within the limits of its mandate – in these areas.

In the same vein, the ECB could assume a more pro-active role in showing how the euro, the currency which 340 million citizens share, and the ECB's own actions, have made a difference to the welfare of Europeans and to prosperity, safety, and cohesion within the EU. The unprecedented high levels of public support for the euro – 76% of Europeans in the latest surveys – are reassuring; however, the only slowly recovering levels of trust in the ECB show that sustained and enhanced communications efforts are clearly warranted.

39. 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?

EU supranational bonds, including but not limited to EIB bonds, are important to help finance European investments. As part of the APP, the Eurosystem has purchased large amounts of EU supranational bonds, with current holdings at around €230billion.

However, the outstanding amount of EU supranational bonds is too small to make these bonds the primary target for the Eurosystem's purchases, and thus they can only make up a part of the overall purchases necessary to achieve the programme's monetary policy objective.

Like other public sector securities, bonds issued by the EIB are subject to purchase restrictions. In particular, Article 123 of the Treaty prohibits the Eurosystem from purchasing EIB bonds in the primary market; they are subject to the applicable eligibility criteria; and the consolidated holdings must comply with issue and issuer limits, which in 2016 increased for the EU supranational bonds from 33% to 50%.

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

Good governance and effective institutions are not only vital for productivity and investment, but also to ensure sustainable growth. In this regard, I consider important that in their regular assessments of the progress made by each non-euro area Member State in fulfilling its obligations regarding the path towards EMU under the Maastricht criteria, the ECB and the Commission pay particular attention to institutional quality and governance and the surveillance of macroeconomic imbalances.

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 ready to join the euro area should of course also be ready to participate in the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM). In this regard, I find the approach introduced for Bulgaria in 2018 and confirmed for Croatia in 2019 very pragmatic and sensible, namely that the countries enter close supervisory cooperation with the ECB under the SSM Regulation at the same time that they join the ERM II. This also entails a comprehensive assessment of the two countries' banking sectors, similar to the one conducted by the ECB for euro area Member States. I also welcome that it is envisaged that a similar approach will be followed for Member States wishing to join ERM II in the future, in line with the principle of equal treatment, as outlined in the Eurogroup statements for Bulgaria's and Croatia's path towards ERM II participation.

I further welcome that the Bulgarian and the Croatian authorities have committed to a number of country-specific measures to be fulfilled before entering ERM II. Such commitments not only pertain to banking supervision, but also to macro-prudential and structural policies, such as on AML frameworks. As envisaged by the ERM II parties, this should further ensure that national policies of the joining countries allow a smooth participation in the ERM II before euro adoption.

41. How would you assess the relative importance of monetary policy spillovers, in particular from the United States, for the conduct of monetary policy in the euro area?

Spillovers are a corollary of globalisation and US monetary policy seems indeed to affect in particular financial markets in the euro area, and hence potentially also fundamentals in the remit of the ECB's mandate. The ECB should closely monitor global monetary policy developments to the extent that these might affect the outlook for growth and its price stability mandate. However, even in a highly interlinked global economy, the ECB is able to shield domestic financing conditions from such spillovers to a certain degree through policy measures, such as rate forward guidance. Its monetary policy thus remains effective in pursuing its domestic price stability mandate, even in the presence of spillovers.

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

Cash is the most frequently used method of payment at point of sale in the euro area in both number of transactions and value. It can be expected to remain an important means of payment at point of sale in most euro area countries for the foreseeable future. Nevertheless, the rapid rise in the use of contactless cards and mobile payments, the increase in online shopping and the development of instant payments (on the basis of which new retail payment solutions may emerge) can all be expected to have a noticeable impact on the use of cash for transaction purposes. Although the speed of a subsequent decline in the use of cash for transaction purposes is difficult to predict, it seems obvious that it will occur.

However, the use of cash for transaction purposes is only one driver of banknote demand. Around 75% of euro banknotes in circulation are used as a store of value in the euro area or held abroad. The demand for banknotes has also been impacted by various additional factors, such as the financial and sovereign debt crises, geopolitical uncertainties, exchange-rate developments and policy decisions. In recent years, euro banknote circulation has continued to show robust average growth above GDP growth.

43. The European Parliament called recently on the ECB to draw up a timetable to phase out the ability to use EUR 500 notes. How do you see the limitation of certain high denominations notes? Is further action required?

In spring of this year all euro area national central banks stopped the issuance of €500 banknotes. In view of the international role of the euro and the widespread trust in its banknotes that are used to a large extent as store of value and abroad, the ECB has made clear that the

€500 will remain legal tender, just like all other denominations of the first euro banknote series. On that basis, a gradual and organised decrease of €500 banknotes in circulation can take place. This is in line with longstanding practices of other central banks, notably the Federal Reserve, which also lets US$ banknotes keep their legal tender status. Withdrawing the legal tender status of the €500 could have a negative impact on the trust in the euro and its banknotes and should thus be avoided.

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

44. How can we address the 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/Single Supervisory Mechanism (SSM) take to ensure that all euro area banks and not only the biggest ones appropriately provision bad loans?

By weighing on banks' profitability and preventing the use of capital for fresh, more productive lending, non-performing loans (NPLs) negatively impact on bank lending, hold back economic activity and, at elevated levels, may even endanger financial stability. In order to address the high levels of NPLs and to prevent their build-up in the future, many initiatives have been taken by various European institutions within the framework devised by the Union legislator.

As the euro area's banking supervisor, the SSM has from its inception in 2014 taken a rigorous approach to addressing NPLs, starting with an extensive asset quality review that among other things assesses the level of provisioning of the largest euro area banks against non-performing exposures (NPEs). It has since followed up, with guidance to banks, which outlined measures, processes and best practices for banks when tackling NPLs, and formulated expectations toward banks with high levels of NPLs to develop their own strategies to address the NPL stocks as well as more concrete measures in the form of supervisory expectations for prudential provisioning for new NPLs and, subsequently, for the provisioning of the NPE stock.

These efforts have borne fruit. According to recent ECB data, the gross NPL ratio for banks under direct ECB supervision reached 3.67% in in the first quarter of 2019, from previously

7.96% in the fourth quarter of 2014. In absolute numbers, gross NPLs shrank to €587 billion in the first quarter of 2019, down from €958 billion in the fourth quarter of 2014.

Moreover, European legislation has recently been amended to include rules on minimum loss coverage for NPLs. Such rules require all banks, so both significant and less significant institutions, to have sufficient loan loss coverage for NPEs arising from new originated loans.

With the adoption of the new regulation, I understand and welcome that the ECB is making some adjustments to its supervisory expectations on the NPL coverage to enhance the consistency and the simplicity of the overall approach.

Moreover, the European Banking Authority (EBA) Guidelines on management of non-performing and forborne exposures, to the development of which I understand the ECB contributed, are addressed to all credit institutions (including medium and small-sized) and aim to ensure that they have adequate prudential tools and frameworks in place to manage effectively their NPEs and to achieve a sustainable reduction on their balance sheets. The Guidelines take into account proportionality aspects in their implementation, providing concrete examples.

45. How do you assess the high level of level 2 and level 3 assets in many bank balance sheets?

Are these assets properly taken into account by the current supervisory framework?

The regulatory and accounting frameworks take valuation risk into account in a number of ways. Banks are required under accounting standards to reserve against modelled valuation gains in certain situations where those gains are not evidenced by observable market data. Under the regulatory framework, further valuation adjustments are required to determine prudent values that achieve an appropriate degree of certainty.

And indeed banks' valuation practices have been a focus of ECB Banking Supervision since its inception. Moreover, I understand that trading risk and asset valuations have been identified as a supervisory priority in 2019. This also includes a number of on-site missions focusing on trading and market risk aspects.

46. 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? Should the SSM be mandated to supervise shadow banking? What should be the role of the SSM as regards Fintech?

The post crisis reform agenda has helped reduce risks in the financial system from all angles, including from non-banks. Regulatory requirements, data reporting and supervision at the EU and global level have been strengthened. For instance, reforms have made money market funds and securitisation activities safer and created more transparency in derivatives and securities financing markets.

That said, we need to remain vigilant. We need to step up efforts to better understand and monitor risks from the rapidly growing asset management industry, as it has been also pointed out in the IMF Global Financial Stability Review. In the EU, these activities are regulated and supervised, but they can still amplify shocks through pro-cyclicality, liquidity mismatches, leverage or interconnectedness. These risks need to be closely monitored and we should reassess whether the current regulatory framework is sufficiently addressing these concerns from a macro-prudential and systemic perspective. More generally, we don't have a macro- prudential toolkit for non-bank finance. This is a gap that needs to be addressed.

As regards supervisory mandates, I believe that first of all agreement needs to be achieved that a robust supervisory framework for the non-bank financial sector at the European level is needed. More integrated European-level supervision would help prevent possible cross-border spillovers, and support both a level playing field and the CMU project. Once there is agreement on this first step, Member States can agree on who should supervise.

Generally, I think we should be consistent – if something looks like a bank and poses risks like a bank, it should be supervised like a bank. That holds for investment firms as well as for fintech companies – same rules for the same risks.

Fintech can bring many benefits to the financial sector, including cost efficiencies, better products and services and ultimately an improved customer experience. Amidst these innovations, ECB Banking Supervision needs to keep up and should make sure that also the banks themselves understand and mitigate the risks emerging from implementing new technologies and solutions.

I also welcome that the ECB is engaged in international fora to ensure that there is a common understanding and approach to fintech related issues.

47. What are your views on the 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?

The establishment of the banking union was an important step for European integration. It has made the banking system safer and sounder and the EMU overall more resilient. But the banking union remains incomplete and thus vulnerable to shocks.

First, the introduction of a common backstop to the Single Resolution Fund (SRF) is essential to underpin the good functioning and credibility of the second pillar of the banking union. By providing additional firepower to deal with banking crises via the provision of both capital and liquidity support, the common backstop will be instrumental to make sure that banks can be resolved without systemic spillovers and without burden for taxpayers – a major goal of post-crisis reforms. While I welcome the progress made at the June Euro Summit meeting, it is of crucial importance that an agreement on the operationalisation of the backstop is reached soon. On top of the common backstop, adequate arrangements for the provision of liquidity in resolution should also be adopted.

Second, a European Deposit Insurance Scheme is the missing pillar in the architecture of the banking union. It would help align depositor confidence across the monetary union, which would increase financial stability and facilitate financial integration. In addition, a single currency area builds on the notion that money – and deposits are the most important source of money for ordinary citizens – benefits from a common high level of trust and confidence, no matter where this money is held in the single currency area.

48. What risks related to leveraged loans do you see for financial stability and how should they be addressed?

Leveraged lending – broadly defined as the extension of loans/credit to highly indebted borrowers – has attracted a lot of attention from US, EU and international authorities.

Leveraged loan markets have grown very substantially over the last decade. This has taken place in parallel with a deterioration in the underlying credit quality because of the increasing leverage of corporate borrowers and the unprecedented decrease in lending standards. For instance, based on ECB public data, about €300 billion in leveraged loans had been issued in the EU in 2017. And by the fourth quarter of 2018, 18 banks alone had increased their total exposure to the leveraged loan sector to up to €321 billion.

Overall, the structural shift in the non-financial corporate sector towards lower quality debt raises prudential concerns. First, more leveraged corporates trade at higher credit spreads and exhibit higher debt and equity price volatility. This may result in increased market volatility during downturns which can spread or amplify volatility in other markets. Second, more leveraged corporates are likely to decrease their investments more than less leveraged ones during downturns, potentially amplifying such downturns. And, third, if some large bank and non-bank entities may be overly exposed to leveraged loans, stress at entity level may transmit more widely. Rising corporate leverage, declining lending standards and weak lender protection may increase the likelihood of defaults and lower recovery rates on leveraged loans.

There are several other important unknowns, including who are the ultimate non-bank investors in both leveraged loans and collateralised loan obligations. The performance of leveraged loans under stress, especially considering that the widespread market shift towards lower investor protection in the loan documentation will likely lead to lower recoveries than has been the case historically.

A lot of work has already been undertaken both at national and international level. The Financial Stability Board, for example, is closely monitoring these markets and members will further examine information on the pattern of exposures to these assets in the coming months to deepen its analysis of potential vulnerabilities. Given the global nature of leveraged lending markets and participants a strong coordination across regulatory and supervisory authorities is warranted. This should encompass both banks and non-banks in an effort to foster good standards in loan origination.

In addition a lot of work has been done by supervisory authorities in making sure that banks' risk management frameworks are prudently addressing and managing these risks. I note that in May 2017 ECB Banking Supervision published a Guidance on Leveraged Transactions in order to address shortcomings identified in banks' risk management and monitoring frameworks.

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

I welcome the broad agreement reached by the June 2019 Euro Summit on the key elements of the European Stability Mechanism (ESM) reform. It is important that a final decision is taken in December 2019 as this reform can strengthen the euro area architecture and the euro area's capacity to deal with economic and financial crises in the future.

The revised ESM Treaty foresees that, in conducting its operations, the reformed ESM should respect the powers conferred by EU law on the Union institutions and bodies. This means that the new roles assigned to the ESM do not impinge on the competences of the ECB and of the European Systemic Risk Board (ESRB), including in the fields of monetary policy, micro-prudential supervision, and macro-prudential oversight.

As regards the specific suggestion to rename the ESM, I agree with the views already expressed by the ECB that the name "European Monetary Fund" would be misleading. Neither objectives and tasks, nor financing of the ESM are 'monetary' in nature. I recall that the IMF was given its name because it was set up to maintain orderly exchange arrangements among members - which initially involved monitoring members' adherence to the "Bretton Woods" system of exchange rates – and it continues to promote international monetary cooperation and exchange stability as part of its mandate.

Finally, it would be important to integrate the ESM into the EU legal order, making it accountable to the European Parliament.

50. What is your assessment of the involvement of the ECB in the context of financial assistance programmes? Will you initiate an evaluation of the ECB's role and activities in 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 has participated in adjustment programmes at the request of Member States, to complement the expertise of the Commission and the IMF. As part of financial assistance programmes, Member States have undertaken major reforms that have prepared the ground for a return to sustained growth.

I agree with the recent decision taken by the Governing Council to focus the ECB involvement on areas that are strictly relevant from a monetary policy and financial stability perspective. While policy design in areas such as labour and product market reforms or privatisation remains very important, from my vantage point it is better dealt with by the other partners.

As regards the issue of evaluation, I am an advocate of feedback culture and fully support ex- post evaluations. Drawing lessons from past experience is indeed fundamental for improving future performance. While I was Managing Director at the Fund, the IMF staff worked on ex- post evaluations of the programmes for Ireland (2015), Portugal (2016) and for the Greek first (2013) and the second (2017) programmes. All reports were made public for accountability purposes.

51. 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?

With the establishment of the SSM, safeguards were set up which ensure that supervisory and monetary policy tasks are performed separately from each other to rule out any perceived or actual conflict of interest between the two functions. For example, supervisory decisions are discussed and prepared by the ECB's Supervisory Board and the Governing Council is involved only through a non-objection procedure.

In my view, the legislator has struck a good balance with the SSM Regulation. On the one hand, monetary policy and supervisory tasks are performed in strict separation by the ECB. On the other hand, administrative synergies between the two functions can still be used, for example by having common IT systems and a joint statistics department. Also, subject to stringent rules, information can be exchanged between the different business areas to make sure that, for example in a crisis situation, all relevant information is taken into account. Against this background, I support a thorough implementation of the principle of separation which, in my perception, works well. Imposing further restrictions could lead to lower cost efficiency or establish further hurdles to a sharing of information that may hinder taking the right decisions, for example in crisis situations.

52. What are you views on the possible trade-off between financial stability and competition?

How can they be reconciled?

A healthy level of competition should generally lead to better outcomes for customers and the wider economy. In particular, a market with too few financial service providers is sub- optimal both because, on the one hand, customers may face too high lending rates, reducing consumer welfare and ultimately leading to lower investment and growth, and, on the other hand, the small number of financial service providers are more likely to be large, systemically important players, giving rise to 'too-big-to-fail' externalities.

Moreover healthy competition should allow avoiding excess capacity in financial services, which may result in squeezed lending margins and excessive risk-taking with detrimental implications for financial stability. In a nutshell, a healthy degree of competition should provide the economy with the right amount of financial services at prices which cover all costs and inherent risks, while at the same time guarding against local monopolies and too- big-to-fail problems. In this respect, the European regulatory framework is contributing to the enhancement of the available tools for dealing with too-big-to-fail banks both in good times as well as in resolution.

53. How could the SSM and the Single Resolution Board (SRB) enhance their cooperation?

From my understanding there is already an active collaboration on all levels between the two, including between the boards and at technical level. The two authorities have concluded a bilateral Memorandum of Understanding (MoU), which covers several areas of cooperation and the exchange of information on regular and ad hoc bases both for day- to-day activities and for crisis management situations. The respective MoU should remain subject to continuous revision and I am convinced cooperation will get even stronger also taking into account the latest legislative developments like the TLAC implementation.

54. The Risk Reduction Package gives the ECB the possibility to disregard intra-EU exposures when calculating the G-SII score of a bank under its remit. The Council argues that this is justified given the establishment of the Single Resolution Mechanism. Do you deem such a reduction in hard capital requirements for Europe 's biggest banks as justified?

Thanks to the establishment of the SSM and the SRM with the SRF, cross-jurisdictional activity of a failing or distressed bank would be significantly less difficult to handle within the banking union compared to the pre-crisis framework. Cross-border exposures within the banking union are thus no longer a good proxy measure of complexity of resolution.

This is recognised by the revision to the global systemically important financial institutions calculation method which enables authorities to take this into account. This in turn prevents any unnecessary impact on cross-border activities, cross-border financial integration or diversification within the banking union.

Of course, banks need to maintain adequate levels of capital commensurate with the risks involved.

55. How do you assess the implementation of the bank resolution mechanism in the EU? Do you think that new tools could be warranted? If so, which ones?

The creation of the second pillar of the banking union, with the SRM Regulation and the adoption of the Bank Recovery and Resolution Directive, has considerably strengthened the European crisis management framework over the last years. In particular they have introduced resolution tools, namely the bail-in tool, which will enable authorities to resolve a bank in an orderly manner and without using taxpayers' money. The resolution framework was tested for the first time with the resolution of Banco Popular in 2017, when the Single Resolution Board (SRB) decided to apply resolution measures, and has proven to be effective.

More generally, implementation of the European resolution framework is still in a transitional phase, as important elements, such as the build-up of the loss-absorbency capacity of European banks, are still in progress. Nevertheless, there are elements that can be further improved and harmonised. That includes enhancing the early intervention framework by eliminating the overlap between supervisory and early intervention measures, setting up a framework for the provision of liquidity to banks coming out of resolution, having a common approach to bank insolvency – by setting up an administrative harmonised liquidation tool –, finding ways forward on home-host issues and introducing a general depositor preference. Finally, also within the framework of bank resolution, there is a need for ensuring a balanced approach to home-host interests in a way that contributes to a further integration of the banking union.

56. 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? Do you see conflicts between monetary policy, macro-prudential policy and the ECB's role in supervision?

The creation of the ESRB was a response to one of the key lessons of the financial crisis regarding the need for an enhanced macro-prudential oversight of the financial system as a new policy function. Since its inception in 2010, the ESRB has been active in shaping macro- prudential policy in the EU by issuing numerous recommendations, warnings, opinions and other publications on various financial stability matters, related to both the banking and non- banking sectors in the EU.

There are positive synergies of placing the ESRB under the ECB roof, given the expertise and existing responsibilities of the ECB and national authorities in macro-and micro-prudential supervision. It is important for the structures to be independent in decision-making at the same time, of course. It is my understanding that the ESRB's General Board and the ECB's Governing Council take their decisions independently from each other, as ensured by separate decision-making processes and bodies as set out by EU law.

57. Now that the Bank Recovery and Resolution Directive (BRRD) and Single Resolution Mechanism Regulation (SRMR) have been amended to integrate Total Loss Absorbing Capacity (TLAC), what are your views on 'too big or interconnected to fail' institutions, savings banks, and the overall issue of the profitability of the banking sector in the EU, and what is your view on the way forward/or its architecture in order to fulfil the needs of the real economy and long term financing?

Ensuring that no bank, no matter its size or interconnectedness, is too important to fail has been central to the post-crisis reforms, and considerable effort has gone into policy measures to tackle this. It is crucial that bank resolution is feasible and credible, without systemic spillovers and without burden for the taxpayers. Measures include TLAC, but are not limited to it – resolution, supervision, and capital all play a role here.

The TLAC requirement contributes to this by creating sufficient loss-absorbing and recapitalisation capacity to implement orderly resolution, thus making the banks resolvable. Euro area global systemically important banks (G-SIBs) are compliant with both risk-based and leverage-based transitional TLAC requirements and are coming closer to compliance with the fully loaded requirements. TLAC has already contributed to a significant increase in the loss-absorption capacity of G-SIBs, and its implementation in Europe via the minimum requirement for own funds and eligible liabilities (or MREL) will further enhance such capacity, also for banks which are not G-SIBs.

TLAC, and too-big-to-fail reforms more generally, likely reduce any implicit subsidy to banks, which is a desired effect. More generally, any cost arising from these regulations has to be weighed against the importance of ending “too-big-to-fail,” which means increased financial stability and reduced likelihood and impact of crises. A safer and more stable banking system will be beneficial for steady-state financing and the real economy.

The Financial Stability Board earlier this year launched a comprehensive evaluation of post- crisis reforms introduced to tackle the too-big-to-fail problem. This will assess whether the implemented reforms are working as intended, reducing the moral hazard and the systemic risk associated with systemically important banks. The evaluation will also consider the broader effects on the financial system.

58. How could money laundering, tax avoidance and terrorist financing be addressed more effectively across the Banking Union? Which role should the ECB/SSM play in this? What would be the most efficient division of tasks between ECB and EBA and the Member States' national supervisory bodies on supervision and enforcement of the Anti-Money Laundering (AML) framework?

The risks of money laundering, tax avoidance and terrorist financing need to be addressed, among others, through cooperation between different authorities when exercising their respective mandates. This was apparent from the recent money laundering cases in the European banking sector and the post mortem report into those cases published recently by the Commission. To this end, the recent legislative changes being made to the Capital Requirements Directive, the Fifth AML Directive and the EBA Regulation to enhance the cooperation between different authorities are most welcome.

The SSM is a micro-prudential supervisor; it is not responsible for anti-money laundering/combating the financing of terrorism (AML/CFT). This responsibility is held by national supervisors. The ECB is expected, however, to take money laundering/terrorist financing risks into account for example in the Supervisory Review and Evaluation Process or when assessing the suitability of board members as AML/CFT issues may have significant prudential consequences.

The EBA has recently been given an enhanced role to assist in the coordination and harmonisation of supervisory approaches in relation to AML/CFT which is a welcome development to ensure consistency of AML/CFT supervision across the EU. While the ECB, national prudential and AML/CFT supervisors and the EBA all hold different mandates, it is important that supervision conducted by all relevant authorities works effectively to mitigate the risks of money laundering and prevent the damage it can cause to the viability of a bank, the financial system and the wider economy.

59. 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 legal but also technical capacity to prevent money laundering and act effectively in situations like this in the future based on its current prudential powers?

Under the SSM framework, less significant institutions, like Pilatus Bank, are subject to the direct prudential supervision of the national competent authority. The ECB is however responsible for issuing authorisations, withdrawing authorisations and assessing acquisition of qualifying holdings for all SSM credit institutions, primarily on the basis of proposals from national competent authorities. While the competence for monitoring banks for compliance with AML/CFT requirements rests with the relevant national authorities, and the investigation of money laundering crimes is the responsibility of national law enforcement authorities, the ECB takes into account AML relevant information and assessments obtained from national competent authorities in its prudential assessments, including the withdrawal of licences, in line with the applicable legal framework. In this regard, the ECB relies on and cooperates closely with the relevant national AML/CFT authorities.

As a response to the recent money laundering cases, there have been several legal and operational initiatives in the EU to enhance the role of prudential supervisors, including the ECB, to take into account money laundering concerns in the exercise of prudential supervision and to strengthen cooperation between prudential and AML/CFT supervisors. These initiatives include measures to improve the information sharing between the authorities and the coordination and consistency of prudential supervision when tackling AML/CFT issues.

60. 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? Is there, in your view, a need to centralise AML supervision in the EU in a single agency or mechanism and, in the meantime, to allow competent authorities to use taxation data for AML purposes?

Recent reports of alleged money laundering in the European banking sector have highlighted the need for further improvements of the framework for AML/CFT. To protect the single market, consideration may be required to a more pan-European approach, given that the current framework can only be as effective as the weakest national implementation. In respect of centralising AML/CFT supervision, I have noted that the EU Commission’s Communication towards better implementation of the EU's AML/CFT provided a number of options that should be considered, including: (i) transforming the AML Directive into a EU Regulation to further harmonise the AML/CFT rulebook, (ii) conferring specific AML supervisory tasks to a Union body to ensure high quality and consistent AML supervision of the financial sector; and (iii) stronger coordination mechanism to support cross-border cooperation by Financial Intelligence Units.

Finally, while the monitoring of banks’ compliance with AML/CFT requirements is for the moment carried out at Member State level by national AML/CFT authorities, the ECB should nevertheless take very seriously the risks of money laundering and terrorist financing within the context and remit of its supervisory mandate. In this regard, information exchanges with prudential supervisors and AML/CFT supervisors can be instrumental in helping the ECB to consider money laundering risks in its prudential supervisory assessments.

61. Compared to the euro area, the US enjoys a more integrated financial sector, which is instrumental to smooth out the effects 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 other conditions. Is deeper financial integration always consistent with the objective of financial stability? What should be the goals of the Capital Markets Union (CMU)?

The global financial crisis highlighted an apparent trade-off between financial integration and financial stability. On the one hand, financial market integration reduces idiosyncratic risks stemming from country- and sector-specific vulnerabilities by enhancing the diversification of funding sources for the real economy and risk-sharing across countries. On the other hand, deeper interconnectedness can also increase the risk of contagion from localised stresses, with small shocks potentially disrupting the normal functioning of financial markets. The crisis demonstrated the need for regulation and supervision to balance this trade-off..

In addition to the regulatory, supervisory and crisis management reforms implemented since the crisis, notably including the creation of the banking union and the development of EU macro-prudential framework, the CMU holds out the prospect of extending the gains from integration without compromising financial stability. The CMU agenda can also play a vital role in reshaping the EU's financial landscape and supervisory architecture towards the challenges arising from Brexit. Its main objectives include a greater diversification of funding sources of European non-financial corporations and strengthening the cross-border dimension of investments within the EU. This would increase the financial system's resilience to country- and sector-specific risks, create potential welfare benefits through cross-country risk sharing and, in turn, enhance the smooth transmission of monetary policy. CMU also aims at increasing cross-border equity financing and cross-ownership of assets within the euro area/EU, thereby deepening private risk-sharing mechanisms across countries and smoothing consumption growth. Finally, CMU allows for resilient forms of cross-border integration via foreign direct investment, foreign equity and longer-maturity debt issuances.

I welcome the progress made so far towards improving European capital markets. We are not there yet, however. Further progress towards more integrated capital markets in the EU should include appropriate regulation and a macro-prudential approach for the non-bank financial sector to ensure financial stability. Ultimately, a truly integrated CMU should also be accompanied by a single supervisory framework.

62. What are your views of the 2012 IMF report 'The Chicago Plan Revisited' by J. Benes and M. Kumhof and the original ideas behind it? Do you think the banking reforms proposed there would contribute to the reduction of systemic vulnerabilities?

The IMF working paper to which you refer looks at the so-called "Chicago Plan", which was first proposed by Professor Henry Simons of the University of Chicago after the Great Depression. The key elements of this plan, also known as "narrow banking", are twofold: first, that banks should be required to back 100% of their deposits with government-issued securities; and second, that banks should be able to finance new loans only through retaining earnings, or by borrowing directly from the government.

Proponents of narrow banking claim it would eliminate the threat of bank runs; ensure government control over the credit cycle by preventing private banks from controlling the supply of 'broad' money; and reduce government and private debt. I personally have doubts that such a plan is either desirable or necessary. I am not convinced that eliminating the role of private banks in the supply of 'broad' money is a good idea, as there is no guarantee that governments would, on the whole, do a better job at providing financing for the real economy. Furthermore, if banks face such severe restrictions on their ability to lend, one can expect that private credit would quickly migrate to unregulated parts of the financial system, with unknown consequences.

A decade on from the financial crisis, banks are overall much safer than they were. Today, banks are required to have more and higher quality capital than before the crisis. They are also expected to hold substantial buffers of high quality liquid assets so that they can meet their liabilities even when markets are not functioning. We have taken great strides towards ending the "too-big-to-fail" problem, in particular by requiring banks to issue debt that can take losses and convert into equity in the event of their failure, thereby reducing risks to taxpayers. Furthermore, through the use of macro-prudential tools we can further strengthen the resilience of the financial system, tailoring requirements to cyclical variations in financial conditions and addressing structural systemic risks in particular markets or geographic locations.

At the current juncture, the focus should be on full, timely and consistent implementation of post-crisis financial reforms. And before embarking on further far-reaching changes, we should carry out rigorous evaluations of those reforms to ensure they are working as intended.

63. A number of significant private and public sector bonds in Europe are characterised by negative yields. Does this have any financial stability implications and, if so, how should they be addressed?

Indeed, a very large share of highly rated government bonds as well as a considerable share of non-financial corporate bonds are trading at negative yields. This even applies to bonds with very long maturities. While easier financing conditions can help to support the macroeconomic environment and be beneficial for financial stability, they also entail some financial stability risks which need to be monitored closely.

First, since negative yields on bonds amount to easy financing conditions for the issuer of these bonds, such issuers might be inclined to take on additional risk or leverage that could, under different circumstances, be considered excessive. To the extent that government bond yields also serve as a benchmark for bank credit, these risks may apply to a broader set of borrowers beyond the corporate and sovereign bond markets.

A second effect is an appreciation in asset values, such as residential and commercial property prices, which may be associated with negative yields on bonds, as investors adjust their portfolios in response. In a higher interest rate environment, borrowers' repayment abilities and collateral values may both be lower. This could increase credit risk in the portfolios of creditors, including banks.

Finally, bond investors are affected by the negative yield environment. Persistently weak investment income represents a challenge for the insurance industry and for pension funds as they are heavily invested in low-yielding bonds and other fixed income assets. The average yield of their portfolios has declined considerably in recent years. It will likely decline even further as older higher-yielding bonds gradually mature and are replaced by newer lower- yielding ones. To maintain a certain level of profitability, some of these investors have been increasing the amount of credit risk and duration risk in their portfolios.

All of these risks should be tackled by a combination of appropriate supervisory action, including both micro- and macro-prudential policies, tailored appropriately to the different risks, including across different parts of the financial system.

64. What are your views on the prevention of conflicts of interest on the ECB? Are any changes necessary to ensure independence from the financial sector from the ECB?

The ECB has been entrusted with tasks serving the public interest. The members of its decision-making bodies and the staff of the ECB should therefore follow the highest ethical standards, not only to avoid any conflicts of interest but also to ensure independence, integrity, accountability and transparency.

My impression is that the ECB has established robust integrity safeguards, taking into account recommendations and suggestions from the European Parliament, as well as the European Ombudsman and non-governmental organisations like Transparency International. The recently published single Code of Conduct applies not only to the high-level officials who hold an employment contract with the ECB, but also to those who have been appointed by the Member States according to national rules. It includes specific rules to manage and avoid conflicts of interest with regard to post-employment activities, private financial transactions and relations with interest groups, as well as measures for pursuing cases of non-compliance and an obligation to publish declarations of interests. Moreover, the ECB's Ethics Framework for staff focuses on the management of conflicts of interest.

The ECB also has specific frameworks and practices to ensure its independence from the financial sector, both for its regular, structured meetings and for bilateral encounters. For regular structured meetings with the financial (and non-financial) sector in the context of high- level dialogues or market contact groups, these include provisions related to transparency as well as good governance, ethical behaviour and integrity. I note that information on the set-up of the groups, on the selection criteria for members and on their meetings is published on the ECB website. Similarly, the ECB has also a specific set of rules to ensure integrity, transparency and accountability for bilateral meetings between ECB high level officials and financial market representatives, and information on such meetings is, also as a general rule, included in the officials' published meeting calendars.

It is of course important not to be complacent and always endeavour that also these frameworks adequately reflect latest developments and best practices.

D. __Functioning of the ECB and democratic accountability and transparency__

65. What will be your personal approach of the social dialogue at the ECB? What is your position 'regarding the fact that neither EU staff regulations and EU institutions' conditions of employment, nor German labour law applies to ECB staff due to the ECB's unique independence status?

The ECB has a comprehensive consultation and information framework in place with the staff representatives (the elected Staff Committee and the recognised trade union, IPSO). It foresees regular meetings between the President or his/her representatives and staff representatives. Furthermore, the Chief Services Officer, who reports to the Executive Board via the President, plays a key role in the social dialogue at the ECB, as well as the ECB's human resources department. Personally, I am looking forward to meeting all staff members of the ECB as well as their elected representatives and that will also be an opportunity to hear more about their concerns.

While I understand that ECB staff is not directly subject to external employment or labour regulations, the ECB defines the conditions of employment of its staff members based on Union primary law. The ECB is bound to apply the general principles of law common to the Member States, the general principles of European Union law, as well as the rules contained in the EU Regulations and Directives concerning social policy which are addressed to Member States. Moreover, the Charter of Fundamental Rights is addressed to all European institutions.

Finally, the ECB's conditions of employment, as well as their implementation in individual cases, are subject to judicial review by the ECJ.

66. In your view, is there a need to provide for mechanisms to monitor and review the conduct and propriety of the members of the Governing Council of the ECB at the EU level?

As the euro area's central bank and banking supervisor, the ECB should strive for the highest standards of good conduct and good governance to protect its reputation and independence.

I understand that the recently adopted single Code of Conduct for high-level ECB officials aimed to set rigorous standards in the fields of good conduct and good governance. It introduced the obligation for all members of the Governing Council, Executive Board and Supervisory Board to publish annual declarations of interests, thereby honouring requests from the European Parliament and non-governmental organisations and the recommendations of the European Ombudsman.

These declarations of interests offer full transparency on personal, professional and financial interests. There are no thresholds below which the declaration of the financial interests would be waived, and the ECB has stressed that it applies the strictest monitoring rules among all EU institutions for financial holding and financial transactions. The transparency on high-level officials' interests is complemented by the publication of their monthly meeting calendars.

Together, these rules thus strike me as providing substantial safeguards to ensure good conduct.

67. The European Parliament 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 European Parliament/ECB vs UK Parliament/Bank of England)?

The principle of central bank independence has served central banks around the world – and the ECB – very well, as evidenced by the strong relationship - empirically well-grounded - between independence and maintaining price stability. Yet, strong central bank independence is only one side of the coin. The other side is strong accountability of the central bank: it strengthens the credibility of the central bank by reinforcing the support for its policies and the trust in the institution.

Therefore, ensuring a strong accountability relationship is a constant challenge for central banks and the respective parliaments. Over the past years, the ECB and the European Parliament have coped with this challenge by developing accountability arrangements that are very comparable to those of other major central banks in advanced economies. For instance, the Chair of the Board of Governors of the Federal Reserve appears four times before Congress (twice before the Senate and twice before the House); the ECB President appears five times a year before the European Parliament (four times before the ECON Committee and once before the European Parliament plenary).

Yet, rather than mirroring the practices of other jurisdictions, I consider it most relevant that the accountability arrangements of the ECB remain commensurate to its tasks and responsibilities and, if and where necessary, continue to evolve, building on the Treaty's framework and in full respect of the principle of central bank independence, with the institution and with citizens' demand for accountability. Building on the existing relationship, it will be important – and in the ECB's own interest – to ensure the fruitful dialogue between the two institutions continues, giving to the ECB opportunities to explain its decisions and to the European Parliament occasions for scrutinising the ECB's policies. This effective dialogue further improves the general understanding of the policies of the ECB and lead to better economic outcomes: IMF research has found that economies are more resilient when their monetary policy is more trusted and when their independent central banks communicate clearly.

68. What is your opinion on the monetary dialogue between the European Parliament and the President of the ECB? What measures and future reforms would in your view reinforce the democratic accountability of the ECB towards the European Parliament?

Believing in dialogue and exchange, I welcome that over the years, the ECB and the European Parliament have developed accountability practices that not only reflect the Treaty requirements but have gone beyond them and fully respect the principle of central bank independence also enshrined in the Treaty.

For instance, building on the Treaty requirements of publishing the ECB Annual Report, the European Parliament now adopts a yearly resolution on it and, the following year, the ECB makes public its feedback on the resolution, thus fostering a genuine dialogue between the two institutions. The European Parliament Resolution remains an important contributor for the ECB's work, as it contains the views of the representatives of the European people on the ECB's actions and policies.

Moreover, the hearings of the ECB President before the European Parliament have proven to be a key forum for discussing the ECB's performance, giving the possibility to citizens to form their position on the central bank's willingness and ability to deliver on its objective. Moreover, ad-hoc hearings with ECB Executive Board Members requested by the European Parliament have given the possibility of having focused discussions on key issues at stake. On top of these exchanges, the written questions posed by the MEPs and the corresponding answers by the ECB President have expanded the dialogue between the two institutions beyond the limits of physical meetings and focusing on issues that were particularly relevant to some constituencies or very technical in nature.

Finally, the conferral of new supervisory tasks on the ECB in 2014 was accompanied by specific accountability arrangements for this new task. Consistently with the Treaty and the SSM Regulation, the Interinstitutional Agreement between the European Parliament and the ECB sets out very specific accountability channels to make sure that parliamentarians can scrutinize the ECB's supervisory function and these have been widely used over the past five years.

Building on this successful experience, it is possible to further strengthen the dialogue between the ECB and the European Parliament, in full respect of the ECB's independence and of the European Parliament's role. As IMF Managing Director I reinforced the institution's transparency practices and its readiness to engage with the broadest possible audience. Looking forward, the European Parliament, and the ECON Committee in particular, can be the key forum for ensuring the ECB's transparency and building an open fruitful dialogue with a wider variety of stakeholders, policy-makers and European citizens.

69. What could the ECB concretely do to have female candidates for ECB top positions in the future and enhance overall more gender diversity in the ECB? How do you personally intend to improve gender balance within the ECB? When do you expect first results of your actions in this regard?

The debate around gender balance has grown in importance on the agenda of central banks in recent years, and has been high on the strategic agenda at both the IMF and the ECB. It is important to seize this momentum to build on existing initiatives and move this agenda forward.

The gender equality challenge is complex and there is no one-size-fits-all approach for closing the gender gap. However, we know there a variety of tools which have proved effective. These include targeted measures and monitoring of progress along the talent management cycle – from recruitment through to promotion processes – to reduce bias and create a level playing field;

strategic use of data, including external benchmarking; the wider re-branding of the financial services sector to make it a more attractive to women; and engaging with male champions of female leadership.

To achieve results around diversity and inclusion, the cultural and behavioural change has to come at all levels: from all staff, management and the leadership of the organisation as I experienced at the IMF, which faced similar challenges to those of the ECB in this respect. I am confident that the ECB can achieve significant further improvements in gender balance – and in the diversity of its workforce along several other metrics.

70. How do you see possible improvements for the ECB's accountability vis-a-vis the European Court of Auditors (ECA) in terms of its operational efficiency? Where do you draw the line for the ECA's mandate? Do you think that the ECA's Mandate should be understood as broad as possible including access to all relevant documents?

The European Court of Auditors (ECA) is an important element in the Union's institutional set-up and its outside advice is often helpful for rethinking established processes and remaining innovative. I therefore fully support its work, which requires access to all documents relevant within the ECA's mandate.

With regard to the ECB, the ECA has been assigned in primary law a specific audit mandate, which focuses on the operational efficiency of the management of the ECB. The ECB benefits from the ECA's assessment of the best relationship between the resources employed and the achievement of objectives. On the other hand, judging the content and appropriateness of substantial decisions would fall outside of the ECA's targeted mandate, which serves as a protection for the ECB's independence.

71. Do you think the ECB should apply the standards of the new Directive on the protection of persons reporting on breaches of Union law internally? When do you expect the ECB to establish specific procedures for protecting whistle-blowers?

While I do understand that internal and external whistle-blower channels exist at the ECB, I

equally understand that there is room for improvement.

I am informed that the ECB's Executive Board has identified the enhancement of its whistleblowing framework as one of its strategic priorities for the years 2018 to 2020. This will provide for the ECB an opportunity to carefully consider the standards set by relevant legal acts such as the European Parliament's new "Whistle-blower Directive" from April 2019, proposing common minimum standards to protect whistle-blowers, as well as other best practices, policies and processes of relevant comparator institutions and recommendations of the European Data Protection Supervisor and the European Parliament.

I consider it to be essential for any institution to have in place a robust framework that offers proper reporting channels and proper protection of whistle-blowers. It is in the very interest of the ECB to have such framework and such processes in place, – not only from a pure risk management perspective but also to incentivise and instil a culture and working environment in which it is unambiguously clear that speaking up is not only encouraged but also expected for the ultimate benefit and health of the institution and its staff.

72. 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?

I value very much the role of the European Parliament as the direct representation of EU citizens, including in vetting candidates for ECB Executive Board member positions as part of the opinion it provides as foreseen in EU primary law. This being said, it is not for me to comment on interinstitutional matters between the Council and the European Parliament.

73. Will you accept your appointment as ECB President if the European Parliament were vote against it?

I am honoured that the European Council members considered me to be the appropriate candidate for President of the ECB and that the Economic and Financial Affairs Council adopted a recommendation on my nomination. I personally consider the Opinion of the European Parliament a key step in the appointment process of the ECB President, laying the ground for trustful accountability relations between the ECB and the European Parliament. I therefore genuinely hope that this Parliament will deliver a favourable opinion on the Council recommendation.

74. In relation to its role as a representative of the euro area in international bodies, which measures could the ECB take to improve its accountability vis-a-vis the European Parliament? How is it possible to reconcile the need of comparability and common global standards with the need to recognise specificities of funding patterns in the different blocs and their particular funding needs?

The level of economic interconnectedness at global level calls for strong cooperation. Despite the very different span of countries, cultures, and systems at global level, the global financial crisis has demonstrated that international policy cooperation is of the essence to preserve financial stability and sustainable economic growth. Achieving such cooperation requires institutions and fora where countries can build trust and mutual respect through non- confrontational dialogue. I had the honour to lead the IMF, which has played an active role in fostering global dialogue and cooperation, thus supporting economic growth and discouraging policies that would harm prosperity.

The ECB is an important and trusted institution in international economic and financial affairs. Its engagement with international institutions and in international fora contributes to promoting cooperation and sounder policy-making at the global level. Personally, I have always appreciated the value-added brought by the ECB to the IMF’s work thanks to its observer status.

The ECB’s involvement in international institutions and fora is carried out in line with the conditions laid down in the Statute of the European System of Central Banks (ESCB) and of the ECB. Therefore, all these activities are subject to regular accountability channels. Moreover, I welcome that the ECB has made public the list of the international fora in which it participates and has expressed its readiness to inform the European Parliament and the ECON Committee about its positions in international fora.

75. In the past, the ECB has launched initiatives such as AnaCredit and the European Distribution of Debt Initiative (EDDI). How do you see the ECB's role in such initiatives and where do you draw the line with regards to the legislator's prerogatives?

As any monetary union, the euro area needs an efficient financial market infrastructure. This is why the ECB and the Eurosystem have been given a clear mandate in the Treaty and the Statute of the ESCB with regard to financial market infrastructures. Moreover, the ECB has a key interest in obtaining all the data necessary to support its tasks as defined in the Treaty. Correspondingly, the Statute requires the ECB, with the assistance of national central banks, to collect statistical information which is necessary to undertake these tasks. The ECB's mandate therefore allows for the possibility that it may undertake regulatory initiatives in specific areas, such as statistics and payment systems.

Where the ECB undertakes initiatives of this kind, it is necessary to ensure it fully respects the legislator's prerogatives and works in close cooperation with the legislator. In the field of statistics, the Treaty on the Functioning of the European Union provides for the ECB, the European Parliament and the Council to share competence to adopt measures for the production of statistics. An MoU is in place which clearly defines the responsibilities of the ECB and Eurostat as regards the production of economic and financial statistics at the EU level. In other cases, a Eurosystem initiative was the necessary basis for the European legislator to introduce relevant legal requirements in the past such as the Single Euro Payments Area Regulation or the Central Securities Depositories Regulation.

It is important that the ECB continues its practice of developing these initiatives openly and with full transparency by means of listening to stakeholders first as part of public consultations and acting only on that basis. This allows EU citizens, market participants and other stakeholders to express their views on new regulations being developed by the ECB. This does not merely ensure transparency but also makes sure that the ECB benefits from all the knowledge and insights of interested parties, thus contributing to better policy-making.

76. Do you think it would be appropriate for you or other senior ECB staff to participate in the 'Group of Thirty' of central bankers and financial industry leaders or similar groups or associations?

For approaching and exercising tasks with open minds, taking into account and learning from different perspectives, the exchange with a wide variety of actors is indispensable. The Group of Thirty is a group of distinguished individuals, coming from different backgrounds and schools of thoughts, and I can understand that exchanges with them are intellectually enriching and beneficial for the ECB.

In my view, it is important that ECB officials are fully transparent about their interactions and are guided by a solid good governance framework with adequate safeguards in place.

I fully support the ECB's practice to provide information on participation in events organised by such groups or associations both before and after the event and to encourage the organisers of the events to provide a high level of transparency on the participants and topics of discussion.

I understand that the ECB has established stringent safeguards for interactions with interest groups and, in particular, financial market participants. They are part of the single Code of Conduct for high-level ECB officials, and as such applicable to all Governing Council, Executive Board and Supervisory Board members.