PHILIPP HILDEBRAND

Vice Chairman, BlackRock, former Chairman of the Swiss National Bank (SNB)

Alessandro Merli, Frankfurt Correspondent, Il Sole 24 Ore

Philipp, one of the big questions about the new role of the ECB will be that they will have to do their monetary policy role, which they have fulfilled so far, at the same time as they engage in supervision, which it was decided at the beginning of the monetary union that they should be kept separate from, and people think this might test the credibility of the ECB in terms of running its monetary policy. You have done it at the Swiss National Bank. How do you think this conflict can be solved, especially at times of crisis?

Philipp Hildebrand, Vice Chairman, BlackRock, former Chairman of the Swiss National Bank (SNB)

Regarding the staff problem, lots of private and investments bankers out there would love to work in a stable and interesting environment, Benoit, so I have no doubt you will be successful on that front. I think it is very important from a market perspective that you do not just hire from the national supervisors. Part of this confidence game I described is that the markets, by and large, believe that a key element of this banking union is the transfer of authority from the national supervisors to the ECB, and this has to do with many different things but, front and centre, is the perception that it is easy for national regulators to be captured by politics at the national level, and by moving this to the most credible institution in Europe, you can short-circuit some of that.

Hopefully, the single supervisory mechanism will be much more than an aggregation of supervisors at the national level. That is a very important piece of this confidence game: convincing capital markets that you are creating something new, which is distinct and different from simply aggregating the supervisors at the national level.

Regarding your question, this is not a problem that can be solved cleanly. One of the men I admired most in our policy circles, who sadly is no longer with us, Tommaso Padoa-Schioppa, argued that you cannot think of the world in as clean and simple terms as you might like . It would be very nice if you could entirely separate regulatory supervisory functions from monetary policy functions; such separateness would presumably help keep monetary policy free of political influence, in accordance with the preferred traditional German approach.

However, the main lesson we have learned in the crisis is that the world is not simple, and whenever a crisis moment hits regulatory and monetary functions necessarily intermingle and, at some point, even fiscal policy becomes intermingled. Therefore, the notion that we can solve this in a clean perfect way anytime soon seems to be unrealistic. We have to accept that this is a problem and that we have to do the best we can.

Take the recent example in the UK of the funding-for-lending scheme. Now, in theory, three different policy committees at the Bank of England are affected by the scheme, but it has at times been unclear who really had authority over it. In fact, when it was amended recently, it was not amended by any one of the three committees, but in an accord between the Governor, Mark Carney, and the Chancellor, George Osborne, so none of the three committees were responsible for the details of the scheme. This shows that, even when you try to organise yourself as well as you can, the reality is that these things are complicated. I do not think this is a first-order problem right now in Europe; the most important thing is to continue this confidence game to ensure the capital markets stay open for the banks and that we make the banks more robust, because Europe cannot grow significantly above potential as long as the credit channel remains clogged. 75% of the European economy is funded by the banking system.

We have to have the credit channel reopened if we want to see the kind of growth rates that will generate employment and bring back stability to the Eurozone, and that will only happen if the markets regain confidence. Transparency will be a key part of this and will entail clear explanations of what monetary, stabilisation, regulatory and liquidity policies are, and we must try to separate these policies to the extent we can. The ECB has done a great job in separating the standard monetary policy approach through interest rates and the liquidity approach through the liquidity measures it has taken most recently, LTRO. That is something the Fed did not do quite as well, and some of the reasons around the confusion at the end of QE have to do with not having separated these things as cleanly as the ECB.

However, and we see this now in some of the discussion around the prospects of another LTRO, the reality is that, even in the case of the ECB, some overlap is inevitable, and the best you can do is to be transparent and clear, and explain as much as you can.