2018 European Capitals of Culture: Leeuwarden and Valletta

The opening celebrations for **Valletta** will take place from 14 to 20 January across the city, inspired by the traditional Maltese *festa* (village feast). Commissioner for Education, Culture, Youth and Sport, Tibor **Navracsics**, will attend the official opening ceremony on 20 January.

In **Leeuwarden**, celebrations will kick off on 26 and 27 January, with artistic installations and performances by professional and amateur artists across the city, and museums opening their doors to visitors throughout the Friesland region. European Commission First Vice-President Frans **Timmermans** will attend the official opening ceremony on 27 January.

Commissioner **Navracsics** said: *"The European Capitals of Culture help bring communities together through culture with long-lasting benefits for the respective cities, their citizens and their economies. 2018 will be a special year as it is the European Year of Cultural Heritage, and both Capitals have included many projects promoting cultural heritage in their programmes – contributing to highlighting the role of culture in building a European identity. I wish Leeuwarden and Valletta every success for the coming year."*

What's on?

The programme for Valetta's *festa* aims to encourage artists and audiences to rethink the traditional view of culture. Due to Malta's specific location as an island-state between Europe and North Africa, the programme also aspires to bring together different points of view from the various shores of the Mediterranean. More than 140 projects and 400 events are included in the programme, organised around three main themes: "Island Stories", "Future Baroque" and "Voyages". About 1,000 local and international artists, curators, performers, workshop leaders, writers, designers, choirs and film-makers will be involved, and celebrations will continue throughout the year across the islands of Malta and Gozo.

With the concept of *iepen mienskip* (open community) at the centre of its programme, Leeuwarden aims to strengthen and connect communities from across the Friesland region and Europe, with more than 800 projects involving music, theatre, landscape art, opera, and sport taking place throughout the year. An exhibition by Dutch graphic artist M.C. Escher, an opera about Mata Hari, an event with Frisian horse-breeders, grassroots projects such as "European sports for all" are just a few of the many projects that will contribute to raising awareness and increasing understanding of cultural differences.

Background

The European Capital of Culture was initiated by the then Greek Minister of Culture Melina Mercouri in 1985 and has become one of the most high-profile cultural initiatives in Europe. The cities are selected on the basis of a cultural programme that must include a strong European dimension, promote the participation and involvement of the city's inhabitants and contribute to the long-term development of the city and its surrounding region.

It is also an excellent opportunity for the cities to shape their image, put themselves on the world map, attract more tourists and think about their own development through culture. Being a European Capital of Culture has a long-term impact, not only on culture but also in social and economic terms, both for the city and for the surrounding region.

In 2017, Aarhus in Denmark and Pafos in Cyprus were European Capitals of Culture. Following Leeuwarden and Valletta in 2018, the future European Capitals of Culture will be Plovdiv (Bulgaria) and Matera (Italy) in 2019, Rijeka (Croatia) and Galway (Ireland) in 2020, Timisoara (Romania), Elefsina (Greece) and Novi Sad (Serbia, candidate country) in 2021, and Esch (Luxembourg) and Kaunas (Lithuania) in 2022. All EU Member States, candidate countries and European Free Trade Association/European Economic Area countries participating in the Creative Europe programme can become a European Capital of Culture.

For More Information

Leeuwarden 2018 – European Capital of Culture

#LF2018

Valletta 2018 – European Capital of Culture

#Valletta2018

European Capitals of Culture – Thirty years of achievements brochure

European Capitals of Culture factsheet

European Year of Cultural Heritage:
https://ec.europa.eu/culture/european-year-cultural-heritage-2018_en

Factsheet "culture as a driver for EU unity" – The Commission's Contribution to the Leaders' Working Lunch Gothenburg, 17 November 2017

Daily News 03 / 01 / 2018

Commission welcomes the entry into force of new rules to prevent tax evasion and money laundering

The Commission has welcomed the entry into force of new rules obliging Member States to give tax authorities access to data collected under anti-money laundering legislation. As of 1 January 2018, national tax authorities will have direct access to information on the beneficial owners of companies, trusts and other entities, as well as customer due diligence records of companies. The new arrangements should give a major boost to tax authorities in the fight against the types of structures highlighted in the 'Paradise Papers'. Pierre Moscovici, Commissioner for Economic and Financial Affairs, Taxation and Customs, said: *"We want to give tax authorities crucial information on the individuals behind any company or trust. This is essential for them to be able to identify and clamp down on tax evaders. To do this, tax authorities will now have access to anti-money laundering information."* The new amended rules, enshrined in the Directive on Administrative Cooperation ([Directive 2011/16/EU]), will give tax authorities much-needed access and enable them to react quickly and efficiently to cases of tax evasion and avoidance. (*For more information: Johannes Bahrke – Tel.: +32 229 58615; Patrick McCullough – Tel.: +32 229 87183)*

2018 European Capitals of Culture: Leeuwarden and Valletta

From 1 January, Leeuwarden (The Netherlands) and Valletta (Malta) will hold the title of European Capital of Culture for one year. The opening celebrations for Valletta will take place from 14 to 20 January across the city, inspired by the traditional Maltese *festa* (village feast). Commissioner for Education, Culture, Youth and Sport, Tibor **Navracsics**, will attend the official opening ceremony on 20 January. In Leeuwarden, celebrations will kick off on 26 and 27 January, with artistic installations and performances by professional and amateur artists across the city, and museums opening their doors to visitors throughout the Friesland region. European Commission First Vice-President Frans **Timmermans** will attend the official opening ceremony on 27 January. Commissioner **Navracsics** said: *"The European Capitals of Culture help bring communities together through culture with long-lasting benefits for the respective cities, their citizens and their economies. 2018 will be a special year as it is the European Year of Cultural Heritage, and both Capitals have included many projects promoting cultural heritage in their programmes – contributing to highlighting the role of culture in building a European identity. I wish Leeuwarden and Valletta every success for the coming year."* The European Capital of Culture was initiated by the then Greek Minister of Culture Melina Mercouri in 1985 and has become one of the most high-profile cultural initiatives in Europe. The cities are selected on the basis of a cultural programme that must include a strong European dimension, promote the participation and involvement of the city's inhabitants and contribute to the long-term development of the city and its surrounding region. A full press release is available online. *(For more information: Nathalie Vandystadt – Tel.: +32 229 67083; Joseph Waldstein – Tel.: +32 229 56184)*

Novel Food: new regulation adding to the food variety present on the EU market enters into force

The new Regulation on Novel Food is applicable from 1 January 2018. The regulation brings significant improvements and changes to the novel food authorisation procedure. It includes an expanded definition for novel food to account for innovation and technology advances in the food sector, a centralised EU-wide authorisation system of novel foods and of traditional foods from third countries, a list of all authorised novel foods in the EU, and data protection provisions for the applicants. European Commissioner for Health and Food Safety Vytenis **Andriukaitis** welcomed the new regulation: *"These changes will make the process of authorising and placing novel food on the European market simpler, quicker and more applicant friendly, while fully ensuring food safety. We hope that this will add to the variety already present on the EU market of healthy, nutritious traditional and innovative foods."* Before being authorised all novel foods must be scientifically proven to be safe to public health. The authorisation then sets out the conditions for their use, their designation as food and labelling requirements. For more information on the new Novel Food Regulation see here. (*For more information: Anca Paduraru – Tel.: +32 229 91269; Aikaterini Apostola – Tel.: +32 229 87624)*

Aides d'État: la Commission approuve un régime français d'aides d'État en faveur de l'infrastructure ferroviaire pour le transport de marchandises

La Commission a autorisé, en vertu des règles de l'UE relatives aux aides d'État, un régime d'aides français en faveur de la création et de la modernisation d'installations terminales embranchées (ITE). Le régime est doté d'un budget global de 60 millions d'euros avec l'aide prenant la forme de subventions non remboursables. L'objet du régime est de soutenir le financement partiel de la construction, de la rénovation, de l'extension et de la remise en service d'embranchements ferroviaires privés pour le transport de marchandises. Une installation terminale embranchée privée est une voie ferrée dont le propriétaire est une entreprise commerciale, qui l'utilise pour distribuer ou réceptionner des chargements. Les embranchements ferroviaires permettent la desserte ferroviaire directe des sites d'activité économique et évitent les ruptures de charges qui se manifestent par un stockage temporaire ou un transbordement des marchandises sur un site intermédiaire. La Commission a estimé que la mesure favorise le transfert du fret de la route vers le rail, en accord avec les objectifs de la politique commune des transports visant à encourager les modes de transport moins polluant. Par conséquent, la Commission a conclu que la mesure respecte la réglementation de l'UE en matière d'aides d'État. Plus d'informations seront disponibles dans le registre des aides d'État sur le site internet de la DG Concurrence sous le numéro SA.48483. *(Pour plus d'informations: Lucía Caudet – Tel. +32 229 56182; Maria Sarantopoulou – Tel.: +32 229 13740)*

Declaration by the High Representative / Vice-President Moghernini on behalf of the EU on the situation in Iran

Yesterday the following Declaration was issued: *"The European Union is closely following the ongoing demonstrations in Iran, the increase of violence and the unacceptable loss of human lives. For the EU, human rights have always been a core issue in our relationship with Iran. Peaceful demonstration and freedom of expression are fundamental rights that apply to every country, and Iran is no exception. In the last days, we have been in touch with the Iranian authorities. In the spirit of frankness and respect that is at the basis of our relationship, we expect all concerned to refrain* *from violence and the right of expression to be guaranteed, also in light of the statements made by the Iranian Government. The European Union will continue to monitor the situation.”* (*For more information: Catherine Ray – Tel.: +32 229 69921; Carlos Martin Ruiz de Gordejuela – Tel.: +32 229 65322; Lauranne Devillé – Tel.: +32 229 80833*)

ANNOUNCEMENTS

High Representative / Vice President on official visit in Cuba

The High Representative / Vice President Federica **Mogherini** will travel to Cuba on 3-4 January, reconfirming the strong EU-Cuban relationship. During her visit, she will meet with government representatives, with a view to an ambitious and swift joint implementation of the Political Dialogue and Cooperation Agreement (PDCA) between the EU and Cuba. Together with Cuban Foreign Minister Bruno Rodriguez Parrilla she will also prepare for the first EU-Cuba Joint Council meeting at ministerial level within the framework of the PDCA. The Political Dialogue and Cooperation Agreement entered into provisional application on 1 November 2017. This landmark agreement – the first ever between the EU and Cuba – constitutes the new legal framework for EU-Cuba relations. It foresees an enhanced political dialogue, improved bilateral cooperation and the development of joint action in multilateral fora.*(For more information: Catherine Ray – Tel.: +32 229 69921; Daniel Puglisi – Tel.: +32 229-69140)*

Upcoming events of the European Commission (ex-Top News)

Declaration by the High Representative on behalf of the EU on the situation in Iran

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Benoît Cœuré: Interview with Caixin Global

Interview with Benoît Cœuré, Member of the Executive Board of the ECB, conducted by Liwei Wang on 17 December and published on 30 December 2017

I. Europe

Mr Cœuré, how is Europe’s recovery progressing?

We don’t see it as a recovery anymore, but as an expansion. The annual growth rate in the euro area is the strongest for ten years. We expect a GDP growth rate of 2.4% for 2017, which by European standards is quite high. Business and consumer confidence are at their highest levels for over 17 years, according to the November reading of the European Commission’s Economic Sentiment Indicator. Seven million jobs have been created in the euro area since mid-2013.

Growth today is not only very strong, but also very broad-based. The breadth of the expansion in terms of countries and sectors is greater than at any point over the last 20 years. The expansion is also more sustainable as it is driven by domestic demand and an improving labour market, and it is less reliant on credit.

We have definitely left the crisis behind us. Europe is back!

How does it compare to the United States?

In 2016, the euro area grew faster than the United States. For 2017 and 2018, it is too early to tell, but the growth rates should be about the same. For example, the euro area flash manufacturing and composite output PMIs for December are at 60.6 (the highest since the series began in June 1997) and 58.0 (a 82-month high) respectively, comparable or somewhat higher than the level in the United States, Japan or the United Kingdom.

Is unemployment still a major issue?

Unemployment is still an issue. At 8.8% in October, the euro area unemployment rate is the lowest since early 2009, but the rate still varies considerably across the euro area. Countries such as Germany or the

Netherlands have practically full employment, but others, e.g. France and Italy, still have some catching-up to do.

In several Member States, such as Spain and Ireland, there have been bold labour market reforms, which are now yielding tangible benefits. This sends an important message: when European countries use a period of growth to implement further reforms, it works.

While Europe needs to rebuild fiscal buffers now, as Mario Draghi recently mentioned, the United States is embarking on a major tax reform, involving major tax cuts. How do Europeans see tasks on the fiscal side?

In Europe, there are two different discussions. One is on the level of the deficit, or "fiscal stance", the other on the composition, i.e. the quality of public finances.

In all countries, there is scope to make public finances friendlier to growth, in particular to reduce non-productive public spending and cut distortionary taxes.

But not many countries have fiscal space, because their public debt is too high. Their priority should be to use the current economic expansion to rebuild fiscal buffers, so that when the next crisis hits, they can use fiscal policy to react to it. In the meantime, they can still improve the composition of their public finances.

There are a few countries, including Germany, that do have fiscal space. These countries should use that space to prepare for the future, although it is not for the ECB to tell them how to do it.

So Europeans need to carry out their own fiscal agenda, not follow the US?

It's not for the ECB to comment, but I don't see a great appetite among European leaders to follow the US example at the current juncture.

What are the risks to Europe's economy?

Risks are broadly balanced in our view, with positive risks coming from the euro area and negative risks coming from outside. The latter include geopolitical risks and risks stemming from emerging market economies.

At a deeper level, we see risks to global growth resulting from the erosion of support for international trade and openness. Europe clearly remains committed to openness and international cooperation. We are open for business. We don't agree with those countries which want to curb international trade.

And let me add a more political remark. In a world which is more uncertain and volatile than ever, Europe can project itself on the world stage and work jointly with China to provide stability.

What are the positive risks from Europe?

History tells us that people tend to underestimate economic downturns and, likewise, in an upturn, there is a risk of underestimating the strength of the economy. For instance, we see very positive dynamics stemming from investment and domestic demand, and this creates positive multiplier effects.

II. Central banking

With the recovery turning into an expansion, it seems we are still not quite seeing monetary policy normalisation (QExit and rate rises)?

Indeed, our monetary policy will remain very accommodative. It has a single objective, which is to bring euro area inflation back to a level below, but close to, 2% over the medium term. Because inflation is still not at 2%, we will maintain an ample degree of monetary accommodation.

The strength of the recovery gives us increasing confidence that inflation will return towards 2% in a sustainable manner. That led to our decision to recalibrate our monetary policy support. We decided in October to reduce our monthly net asset purchases from €60 billion to €30 billion from January until at least September 2018, and longer if needed. By halving the monthly asset purchases we are recognising both the strength of the recovery and our greater confidence in the inflation outlook.

The euro area is not alone among major economies in having inflation that is kind of muted. Any fundamental reasons for this?

I think that we need a degree of humility here. There are many things we don’t understand very well, for example the impact of technology on industrial organisation, wages and prices. Technological change certainly is a common explanation for low inflation in all advanced economies.

Low productivity gains are also one explanation for the sustained weakness in wages across advanced economies, which in turn also have an impact on inflation.

There are factors specific to Europe as well, in particular high unemployment. Both the United States and Japan are close to full employment, while Europe is not. Europe is lagging behind the United States and Japan in the business cycle and still has some slack to absorb before reaching full employment. Many of the newly created jobs are based on part-time or fixed-term contracts, which dampen the prospect of rapid wage increases. That helps explain why inflation will only slowly move back towards 2% and why we still need ample monetary accommodation.

European financial markets already show a lot of frothiness, just like in the US.

In Europe, we see frothiness in some market segments or asset classes, but nothing that would be a concern at euro area level and would call for a monetary policy reaction.

Local issues call for local solutions, separate from monetary policy, or what we call macroprudential measures. A very recent example is the decision last Friday [15 December 2017] by the French macroprudential authority, the High Council for Financial Stability, to propose a measure to limit the exposure of large French banks to the most indebted companies, given concerns related to corporate debt growth in France. The macroprudential toolbox is being used. It has been used in several euro area countries, such as in Ireland in the case of mortgages.

The ECB is monitoring this closely. In principle we have the possibility to top up national measures, although we haven't done so yet.

Your colleague, Yves Mersch, said earlier this month: "Nourishing a market belief that the exit might be permanently postponed could exacerbate the potential cliff effects". An official from the People's Bank of China (PBOC) made remarks along the same lines recently, warning of the risk of markets gaming monetary policy while rates remain low. How do you see central banks' interaction with markets?

There is always a risk of central banks being led by financial markets instead of leading them.

We can't ignore market reactions, because markets are important transmitters of monetary policy. This is also why we place importance on communication and lay out as clearly as possible our reaction function in our forward guidance. But we have to keep in mind that the ultimate yardstick for our action is inflation. We are not targeting financial asset prices.

Given the strength of the expansion, we are increasingly confident that inflation will rise towards 2% over the medium term. This justifies a gradual and cautious recalibration of monetary policy. Markets have to understand that QE will not last forever.

Could it be a bit behind the curve?

We have flexibility to react both ways. Given what we see in the economy, I believe that there is a reasonable chance that the extension of our asset purchase programme decided in October can be the last. But the Governing Council of the ECB has also made it clear that the programme can be kept in place for longer, should inflation disappoint on the downside. And if inflation turned out to be higher than currently expected, we would have plenty of instruments with which to react.

The generation of central bank governors who handled the crisis has now either retired or is close to retiring. How do you regard what they've done?

The main lesson from this crisis is that you have to think outside the box, be innovative, while at the same time staying within your political mandate. It's a very delicate balance, but the Federal Reserve, the Bank of England and the ECB have all done it and succeeded.

Central bankers in some circumstances have to be bold and fast, but they also have to do things in a politically and legally acceptable manner. That's what they've done, and that is also something to remember for the future.

Can central bankers push politicians to act if they are slow to act or make reforms?

Central bankers have no mandate and no legitimacy to push politicians. At the same time, they have a duty to speak their mind and publicly state what they think is necessary for economic policy.

III. China

Governor Zhou of the PBOC is also to retire (soon)? Looking from the outside, how do you see him?

What I particularly notice is Governor Zhou's international role. I've listened to him many times in Basel, Washington and other places. He's one of the most respected governors around the table. When he takes the floor, everyone stops to listen to him, which is not always the case in international meetings.

What has always struck me is that he expresses China's position in a very clear way but he also aims to move the discussion on, seeking a consensus. That's extremely valuable in an international discussion.

For me, the very thoughtful and analytical way he has of addressing issues is a very important contribution. He always takes the time to explain complex issues, including for instance recent developments in China's financial system, which can be quite complex for outsiders to understand. He has a very clear and concise way of explaining things, making discussions more constructive.

How does the global central banking community view the PBOC's role in recent years?

Over the last ten years or so, there has been a clear evolution. The PBOC has been engaging more and more with the international community and its central bank counterparts, in line with the changing role of China in the global economy.

From an ECB perspective, I can say that we now have a relationship with the PBOC that is as broad and deep as it is with a core group of other central banks, such as the Federal Reserve, the Bank of Japan, the Bank of England and maybe a few others. This includes discussions on financial markets, monetary policy, payment systems, to name just a few. The PBOC is part of that core group.

The ECB in June invested a small amount of foreign reserves in the renminbi. Why? Any plans ahead?

The amount is equivalent to €500 million, roughly 1% of the ECB's foreign currency reserves. We sold US dollar reserves to do this. At the end of 2016, the ECB's reserves consisted of 83% US dollars and 17% Japanese yen. We also have a €45 billion/RMB 350 billion bilateral currency swap agreement with the PBOC.

Both initiatives are an acknowledgement of the growing international role of the renminbi and a first step towards a better understanding of how the Chinese monetary and foreign exchange markets work.

I’m quite sure that there will be further steps in the future. But central banks are conservative by nature. This is a long-term process.

How do you see the prospect of RMB internationalisation?

To understand the international monetary system, one needs to take a very long-term perspective, even if the rise of China on the global economic stage has been much faster than anything we’ve seen before.

It’s quite evident to me that the renminbi will eventually become a major international currency, and I personally believe that a multi-polar monetary system is good for the stability of the global economy. For the renminbi to achieve that status, further steps will need to be taken, including a further opening of the capital account, the pace and modalities of which are for the Chinese authorities to decide.

IV. Digital currency and fintech

What do you think of Bitcoin?

What we are witnessing today is clearly a bubble, made possible by scarcity and by an expected sequence of gains which investors believe will be sustained, irrespective of the fundamentals. That is the definition of a bubble.

Bitcoin is not a currency. Investors should not believe that they will be able to use it as a means of payment. It is a speculative investment. There is a risk of large capital losses which investors should be aware of.

So the main concern related to Bitcoin is not a monetary one but one that relates to investor protection, and possibly also to tax evasion, money laundering and criminal finance.

With two American exchanges (CBOE and CME) introducing Bitcoin futures, how do you see the policy for it going forward?

The ECB is not a securities regulator. Regulators worldwide have recently warned investors repeatedly about possible losses. In Europe, the Fourth Anti-Money Laundering Directive, adopted by the European Council and the European Parliament last Friday [15 December 2017] requires exchange platforms and wallet providers to report suspicious transactions and identify owners of digital currencies. I’m quite sure that further steps will be taken to regulate this market.

How do you see the prospect of central bank digital currencies?

This is an area where central banks tread with great caution, because different jurisdictions face different trends in the demand for cash, and because we have to assess the full impact of any change in the way we operate, both for the citizens of our countries and for the structure of financial intermediation. In that respect, I would make a clear distinction between wholesale and retail applications.

Starting with wholesale markets, we see that distributed ledger technology (DLT) has a lot of potential for market infrastructures. All major central banks are looking into it. The Committee on Payments and Market Infrastructures (CPMI) of the Bank for International Settlements, which I chair, published a report on it in February 2017.

The ECB has undertaken a pilot project with the Bank of Japan in this area. We concluded that the technology is not yet mature enough to migrate large-value payment systems – in our case, TARGET2 – to a DLT-based infrastructure, but we'll continue to study it carefully.

The question will arise as to whether central banks could at some point provide central bank money to financial market infrastructures in a digital form. We are still in the early stages of that discussion, but it is a relevant one.

Is this similar to the real-time gross settlement (RTGS) renewal programme under way in the United Kingdom?

Indeed, the Bank of England sees potential benefits from DLT for future RTGS systems, although, like us, it believes that this technology it is not yet sufficiently mature. But we will continue to look into it.

As for the retail side, that is, central bank digital currencies replacing banknotes and coins, we are much more prudent. First, there are only a limited number of countries where demand for cash is clearly on a downward trend.

Sweden is faced with such a situation, but in the euro area we are not. We are therefore not being pushed to go in that direction.

Second, we also have to consider the implications for security and trust in the currency. Today, we invest a lot of resources in fighting the counterfeiting of banknotes. What would fraud, and fraud combat, look like in an environment with a digital currency?

And third, we want to make sure that we fully understand the long-term consequences for the financial system. Today, most of the money used in the economy is created by banks. How would digital money affect the role of banks as financial intermediaries, and would it make the financial system more, or less, stable? These are issues on which much more reflection is required, hence our great caution.

How does the ECB's new TARGET instant payment settlement (TIPS) initiative factor into this?

This is actually my last point. A lot of the current interest in central bank digital currencies, or private digital currencies, stems from the fact that people expect them to be faster and cheaper than existing means of payment. These expectations can be easily met by upgrading existing payment systems.

That’s true for domestic payments, and it is exactly what we’re doing in Europe with TIPS, an infrastructure allowing for 24/7, 365-day instant payments. TIPS will go live in November 2018.

It’s also true for cross-border payments. But here we are less advanced. One reason why Bitcoin is popular is because it allows for cross-border payments that are cheaper and faster than with existing infrastructures. The international community has a duty to get together and act to improve the speed and cost of cross-border payments, to avoid being taken over by technologies such as Bitcoin, which entail risks for their users, not to mention possible fraud and crime.

In China, private sector non-banks are also becoming disruptive players in the payment space.

In Europe, we have a new legal framework for payments entering into force in January 2018, called the Second Payment Services Directive (PSD2).

Under this revised framework, payment service providers (PSPs) can be non-banks and will have access to the bank accounts of their customers, but at the same time they will be regulated, not only in terms of financial stability but also in terms of data use and privacy. Opening up the payments market is good for consumers and it will spur innovation, but it should not come at the expense of privacy and security.

How do you see technology and tech firms’ impact on banks and the financial structure?

In a nutshell, fintech creates opportunities for non-bank actors to become players in the financial services sector. It has the potential to significantly destabilise the banking system or at least to erode its profitability.

Bear in mind that PSD2 is designed to introduce more competition by requiring banks to share data that they today use to cross-sell financial services. With access to such data, fintech companies could for instance increasingly capture the value formerly retained by banks.

I see two broad scenarios. In the first one, banks rise to the challenge, cut costs, internalise new technology, including by purchasing fintech companies, and gain new sources of revenue. This scenario crucially assumes that banks are profitable enough to carry out the necessary technological investments.

In the other scenario, banks fail to internalise fintech and run the risk of becoming mere platforms, with all the value being created outside. This could happen in particular if digital giants, who already have access to large amounts of customer data, start targeting parts of the banking value chain, ultimately crowding banks out of large swathe of financial services.

Firms and households may then benefit from new financial services and products, but the stability of the banking system would be at stake, and regulation would need to be carefully reviewed to close any loopholes.

What role can central banks or regulators play in this?

We need to stick to a very simple principle: equivalent activities should be regulated in an equivalent way. For instance, if we see non-bank players starting to provide credit, they will need to be regulated in an equivalent way, although not necessarily the same way, giving different deposit-taking restrictions.

And since all these activities are cross-border, we need international coordination. The right forum for this discussion is the Financial Stability Board, where Chinese authorities are active participants.

Yves Mersch: Interview with Börsen-Zeitung

Mr Mersch, the euro area economy is booming and inflation is picking up. Will 2018 be the year of monetary policy change for the ECB, with a shift away from the ultra-loose monetary policy of the crisis years?

The change actually already got under way a year ago. We first reduced our monthly asset purchases from €80 billion to €60 billion, and as of January we will in fact be down to €30 billion. We are also letting our targeted longer-term refinancing operations expire. So it really cannot be said that we have not taken the improved data into account. Our monetary policy is data-dependent, and we always react to the latest developments. This will also be the case in 2018.

But the ECB has always downplayed the significance of all these decisions. Do you think that market participants have understood that the change is already under way, as you say it is?

Sometimes markets react more quickly than expected and sometimes they take a bit longer. And sometimes they overreact, so we have to be very careful. We don’t want to cause any upset. But it is indeed surprising that long-term interest rates are now lower than they were in the summer, although growth has surprised very positively and growth and inflation forecasts have been adjusted upwards. It doesn’t really follow.

The main thing for 2018 will be a decision on quantitative easing (QE), i.e. the large-scale purchase of assets, which is currently locked in until 2018. If growth and inflation develop as currently expected, will that be the end of QE?

We will make that decision when the time comes. Keeping the end-date open now was the right thing for the Governing Council to do. The first step is to implement the decision to halve our purchases to €30 billion. But as ECB President Mario Draghi recently said, we are now more confident that inflation is on a sustainable path towards our medium-term objective of below, but close to, 2%. But the more confident we are of meeting our objective, the more the likelihood of a further increase in our purchase programme trends towards zero.

So far there has been a one-sided promise to increase QE "in terms of size and/or duration", i.e. maintain the "easing bias", if the outlook for inflation worsens or financing conditions become unduly tight.

It's certainly a valid question to ask whether a promise that has a near-zero probability should continue to be made. Indeed, in the short term the risks to growth and inflation are more on the upside, meaning that both could turn out to be higher than currently forecast. So it makes increasingly less sense to give a one-sided signal that addresses the eventuality of the situation unexpectedly deteriorating. So there is certainly scope for adjusting our communication on the easing bias soon. To a certain extent, this has already been done with the statement about our greater confidence in the path of inflation. In addition, it is clear that the net purchases are becoming less important compared with the holdings on the central bank's balance sheet, the reinvestments and forward guidance. This will no doubt be reflected in our communication as well.

If QE comes to an end in 2018, would it be sufficient to start communicating on this in the summer, or would preparations have to start earlier?

It shouldn't be left until the very last minute – the markets should be prepared in a proactive and ongoing way. This is important so that we avoid false expectations and short-term market turbulence. It would certainly be appropriate to take a position on this point before summer 2018.

Would there need to be a gradual winding-down from €30 billion, a "tapering", or could the ECB drop to zero in one step?

We haven't yet gone through the various options in the Governing Council. The expert committees will also need to be involved in the preparations. Our aim is not to cause an unnecessary stir in the markets, and we will stick to this position.

The markets were recently hoping for more information about how the reduction to €30 billion would be distributed between the individual purchase programmes. Doesn't the Governing Council need to provide more guidance on this?

We will continue to purchase mainly public sector bonds, and the rest will be invested in private sector instruments. Corporate sector purchases will probably account for a slightly larger share, as we won't necessarily reduce these purchases proportionally. But the exact composition of the €30 billion will depend on the situation in the market. We need a certain amount of flexibility, because market conditions can change quickly.

Is the ECB still in control of affairs, especially now that self-imposed purchase limits are becoming increasingly relevant?

We are able to conduct our asset purchase programme. The important thing here is that we want to remain market-neutral. And we shouldn't overdo the discussion on the composition of the €30 billion. Including reinvestments, we will still be buying securities for more than €50 billion in some months. The question of whether we invest, say, €1 billion more or less in corporate bonds is not decisive.

To what extent have the Governing Council's discussions been affected by the Steinhoff issue – that is, losses resulting from the purchase of bonds issued by the beleaguered furniture retailer – especially given that Council members hold very different views on corporate sector asset purchases?

The Steinhoff case hasn't resulted in any discussion in the Governing Council about changing the asset purchase programme. We have certain rules regarding the suitability of individual instruments. We don't blindly buy 100% of a given bond, we watch the market constantly. The important thing for me is that we don't take on excessive risk. We also keep a constant eye on our risk management framework and adjust it if we see a need to do so.

The Governing Council doesn't want to consider raising interest rates until "well" after the end of net QE purchases, which is known as "sequencing". This follows the example of the Federal Reserve in the United States. But the Federal Reserve never had negative rates. Doesn't at least the negative deposit facility rate need to be scrapped more quickly?

The slightly negative interest rates support our asset purchase programme. If we had not had them, we might have needed to buy greater volumes to achieve the same effects. But the net purchases are becoming increasingly less significant. And the sequencing is something that the markets have understood very well. So we need to move step by step towards a normalisation of our monetary policy, we shouldn't rush it.

But isn't the negative rate a special case?

There are very different views about negative interest rates. We haven't seen any excessive distortions so far, and the advantages predominate. But this does not lead me to conclude that we should hang on to negative rates for a long time to come. Can you imagine that a whole generation is growing up without knowing what it means to gain interest on money? There is a risk of the savings culture being undermined, and we need to keep a close eye on this. The bottom line is that we need to approach the normalisation of our monetary policy carefully and gradually. But we also need to be very careful that we do not act too tentatively and too late and end up falling "behind the curve".

How much do you worry that the ECB would have hardly any ammunition left with which to counter a future downturn?

We are always saying that fiscal policy should build up buffers in good times. But that is also true for monetary policy. If a central bank were to run out of ways to react to a recession, that would be worrying. This too demonstrates that the current level of interest rates is certainly not the normal state of affairs.

In the United States the first interest rate rise came 14 months after the end of QE. In the case of the ECB, that would mean that if QE were to end in September 2018, the first rate increase would be in November 2019. Some market participants are even reckoning with 2020. Do you feel comfortable with such expectations?

We do not follow the example of others. Our actions are determined solely by the requirements of the euro area. 2019 and 2020 are a long way off; nobody can make reliable predictions that far ahead. I can only advise against tying oneself down so far in advance. That could damage credibility.

But the forward guidance on interest rates goes in that direction.

Forward guidance at some point reaches its limits. That has to be acknowledged. It was a useful additional tool in a specific context. But once we start heading back towards normality, forward guidance should not be expanded, it should be scaled back. We shouldn't limit our room for manoeuvre indefinitely.

Are banks, businesses and governments sufficiently prepared for a future interest rate turnaround?

There have always been people who believe in Father Christmas and who think that everything will continue as it is. Those who don't prepare themselves for increases in interest rates will ultimately be at a disadvantage. Even changes in the purchase programmes will affect the yield curve. But it's not the ECB's task to guarantee that the curve will always remain so flat. We, the ECB, via monetary policy normalisation, should pay heed to moving our focus from long-term interest rates back to the short end. The more a central bank concentrates on the long term, the closer it gets to redistribution – this is worrying from the perspective of economic governance ("Ordnungspolitik").

Who has the most catching-up to do – banks, business or governments?

Some countries need to do much more to solve the problem of non-performing loans, the NPLs. Other countries are still taking on too much new debt, and others meanwhile have not built up any fiscal buffers at all. It must be clear to everyone that we don't conduct monetary policy for individual economic actors, but for the whole of the euro area economy.

Bundesbank President Jens Weidmann is concerned that the ECB will face ever greater political pressure.

Of course, some countries are more resistant to reform than others. But we've also seen that countries which hadn't undertaken reforms for a very long time were, in the end, able to do the necessary. Consider the reforms in France under President Emmanuel Macron. Such reforms are certainly more convincing for markets than merely making proposals on creating a European "debt union".

Concerning NPLs, the ECB's banking supervisors want to be stricter, but are encountering a lot of political opposition within the EU. Are the euro area countries unwilling after all to address the problems of their banks?

The NPL problem has to be solved, no doubt about that. But you have to distinguish between substance and form. We supervise the banks, but are not the regulator. The relevant institutions, within their competences, must address the problems in a timely and determined manner. Despite all the criticism of the form no-one should hide behind it and wait for the problem to resolve itself.

Could you imagine banking supervision being separated from the ECB sometime, as is being demanded particularly in Germany?

I can imagine a lot of things. But I'm not convinced that the previous German model was better. Personally, I am very strongly convinced that monetary policy needs access and proximity to the supervisory authority in order to fulfil its mandate. There is no ideal model for this proximity. I'm not convinced by the argument that supervision would function better outside the ECB.

The ECB was also criticised for pushing for a change to its statute in order to obtain more effective control over clearing houses. Was that a mistake?

No. A stronger role for the ECB in the oversight of central counterparties is quite clearly a monetary policy responsibility. I fail to understand those insinuating that we are expanding our mandate. Monetary policy has to deal with those entities where liquidity is collected and pooled. If we didn't take care of this, we would be recklessly negligent of our mandate.

How concerned are you about the rising value of Bitcoin? Is it a risk to financial stability?

First of all, Bitcoin turnover is between €250 and €350 billion. The volume is therefore comparatively low. That's why Bitcoin trading is not at present an issue for monetary policy. Regarding the increase in price, we are seeing speculative hype that might be a cause for concern. But of course individual investors are free to gamble. However, if something goes wrong, they should not come to us and say we should have outlawed it and protected them from themselves. Second, there are now banks which hold positions in Bitcoin. It is a matter for the supervisors to judge how big the risks are. Third, and what concerns me most, is when financial market infrastructures such as stock exchanges enter this business. That poses a major threat to financial stability.

So you don't think much of Bitcoin futures and other recent developments?

If these transactions are kept separate from others, it's a secondary matter who wins and who loses. However, if all the participants in these financial centres are jointly liable, that can create difficulties, for instance, for banks or the whole system. And if the banking system gets into trouble, there will again be demands for support from the ECB. I would say from the outset: we shouldn't do this.

Do you think that private cryptocurrencies could become a real alternative to central bank money?

Money needs trust. Public currencies, for example the euro, have the backing of public institutions such as the ECB. Many of these currencies have no backing, nothing. It's a somewhat different matter for the underlying technology, the blockchain. That's a challenge we all have to face, especially banks. Each institution has to know that in the future financial intermediation will no longer be heaven-sent, but has to be fought for.

Bundesbank Executive Board member Carl-Ludwig Thiele has raised hopes for a return of the €500 banknote. The Governing Council's decision to stop issuing the €500 only relates to the second series of banknotes and probably a new series of banknotes will appear in the next decade. Is that correct?

Strictly speaking, the decision to suspend the €500 banknote only concerns the second series, so that's correct. But it's unlikely that we would resume production. We shouldn't try to turn the clock back. In theory, the Governing Council is free to change its mind tomorrow. But I think the chances of that are as high as for additional net purchases under QE.

Let us come back in more detail to the matter of monetary policy: do you think that there will be a return to the normality that prevailed before the global financial crisis – or is there a "new normal", with, for example, inflation at a permanently lower level and instruments such as bond purchases being a permanent feature?

I don't think we're already living in a "new normal". The discussion on this should continue but caution is called for. There are certainly factors which have a lasting impact on prices – ageing populations, new technologies, globalisation. But many of the factors that keep inflation below target are also temporary. I am convinced, as is the Governing Council, that we are definitely able to reach our objective of below, but close to, 2%. We are already seeing a build-up of reflationary forces. In the future we can certainly have a debate about our objective – as we did in the early 2000s. But we shouldn't have this debate if we are just short of our objective. That would only destroy confidence.

Irrespective of 2% – is "inflation targeting" outdated?

Inflation targeting is fashionable, but it's fading. In a region as varied as the euro area, we were well advised not to impose on ourselves a strict inflation targeting regime, but to be more flexible. We have settled for a definition of price stability over the medium term of below, but close to, 2 %. I think it has served us very well.

And are you worried that the era of central bank independence could be coming to an end?

I am very concerned about these discussions. But as central bankers we also have our own responsibility: the more space we occupy, the more we need to ask ourselves whether that is still compatible with our independence. We need a tightly defined mandate. The closer we move to the political domain the greater the risk of our getting burnt.