

Monday 18 December: MolenGeek coding school goes European – press point with Vice-President Ansip and Belgian Deputy Prime Minister De Croo

The news:

On **Monday 18 December**, [MolenGeek](#) coding school organises a press point to present their plan to scale up in Europe, with a first project in Italy: “The Padua Tech Station by MolenGeek”.

European Commission Vice-President Ansip, in charge of the [Digital Single Market](#), and Belgian Deputy Prime Minister De Croo, responsible for the [Digital Agenda](#), support this initiative and will present action taken at European and Belgian levels to encourage startups to scale up and promote digital skills for all.

The background:

MolenGeek was founded two years ago by five young entrepreneurs. It is led by Julie Foulon and Ibrahim Ouassari. It offers a wide range of activities for young people to be develop digital and entrepreneurship skills.

MolenGeek receives financing from the Belgian Digital Agenda and private partners. The organisation participates in European projects such as the [European Startup Prize for mobility](#), [Startup Europe](#) and activities related to the [Digital Skills and Jobs Coalition](#).

More information:

When: **Monday 18 December – 14:00 to 14:30**

Where: **MolenGeek, [Place de la Minoterie 10, 1080 Molenbeek-Saint-Jean](#)**

Registration mandatory: [Julie Foulon](#)

Benoît Cœuré: Central banks as risk managers

Speech by Benoît Cœuré, Member of the Executive Board of the ECB, at the 53rd SEACEN Governors' Conference/ High-Level Seminar and the 37th Meeting of the SEACEN Board of Governors, Bangkok, 16 December 2017

It is a great pleasure for me to be here today.

Before I comment on this panel's topic, let me express my gratitude and satisfaction with the strategic partnership between the ECB and SEACEN, which got off to a successful start this year. Many cooperation activities, ranging from seminars on macroprudential analysis to central bank governance, have already been launched and more is being planned for 2018. I look forward to strengthening our cooperation over the coming years.

The topic of this panel deals with the implications of political risks for central banks. Given the independence of central banks and their legal separation from the political dimension, this is obviously a complex issue – and one where monetary policymakers need to tread very carefully.

For this reason, I would first like to spell out how the ECB generally incorporates different kinds of risk into its monetary policy strategy, and how this has influenced our actions over the last few years. I will argue that every central bank is to a considerable extent a risk manager, reflecting the forward-looking nature of monetary policy.

I will then explain why political risks cannot be addressed in the same way as economic risks. Central banks should not prejudge political outcomes through their actions. Rather, they should address their effects if and when they become visible in the economic and financial data that are relevant for their price stability mandates.

Monetary policy and risk management

My starting point is that monetary policy works with long and variable lags.

In the euro area, for example, the full transmission of interest rate decisions to output has been estimated to be between one and two years, and even longer for inflation.^[1] So, if we were to decide policy on the basis of past outcomes, we would always be behind the curve. Monetary policymakers therefore have to look at the economy in a forward-looking way.

To do this, we produce forecasts, on a regular basis, that indicate our central expectations for the economy – the baseline. In principle, this should be enough to form a view on how policy should be designed today. But we all know that this would be a bad idea. Policymakers are typically poor forecasters, and central bankers are no exception.^[2] This is nothing to be ashamed of. It merely testifies to the fact that the past is often a poor predictor of the future.

You can see this quite clearly for the euro area on my first slide. We call it the “spaghetti chart”. It shows the repeated inflation forecast misses over the past few years. On each and every occasion there were good reasons to assume the economy would go the predicted way. But on each and every occasion unpredictable shocks hit our economy that made our central forecast redundant.^[3]

The implication is that we would likely have made severe policy mistakes if we had based our policy decisions entirely on our baseline.

And bear in mind that the economy can be more or less elastic to different types of shock. A tail risk, if it materialises, may cause the economy to react in a non-linear and potentially disruptive way – hyperinflation and deflation being typical examples of risks central banks want to avoid.

For all these reasons, central banks usually augment their forecasts with an assessment of the risks surrounding them. This comprises a *distribution* of risks – the range of possible outcomes and the likelihood of their happening – which, in turn, allows us to form a view on the *balance* of risks, i.e. whether they are overall tilted to the upside or downside, and on the probability of tail events.

Such risk assessments are not an exact science and there is no automatic link between them and policy decisions. But we do at times apply what Alan Greenspan famously called a “risk management” approach to monetary policy.^[4] If the balance of risks is tilted very strongly in one direction, or if the distribution of risks is especially wide, there might be a case for us to act.

For example, we might need to provide forward guidance, i.e. specifying how we would react to particular risks. Alternatively, we might need to change our policy stance pre-emptively, especially in situations where tail risks are material and it becomes cost-efficient to truncate that part of the distribution.

The ECB’s monetary policy since mid-2014 illustrates these two aspects well.

Around that time, we saw the balance of risks to the inflation outlook shift decisively downwards, while the distribution of risks widened to encompass outright deflation, as you can see by comparing the blue and red lines on my second slide. If they had materialised, those risks would have fundamentally compromised medium-term price stability, and so our strategy required us to respond – even though our central forecast at that time was for a low but positive rate of inflation in the years ahead.

We responded in two main ways.

First, we clarified our reaction function to the main risks we saw and the instruments we would use if each of those risks materialised.^[5] This sent a clear signal to observers that we were ready to respond in the case of adverse contingencies.

Then, when those contingencies arose, we followed through with our forward guidance and introduced a set of policy measures that was designed to cover the full downside distribution of risks – that is, a very accommodative policy stance to combat disinflationary forces, and an option to be even more accommodative if the situation deteriorated into outright deflation.

Thanks to these policy interventions, the distribution of risks has narrowed considerably over time – as you can see from the yellow line – and we no longer see a meaningful probability of deflation. The balance of risks has also shifted upwards as the economic recovery has gathered steam. The current economic expansion in the euro area is stronger than it has been for a decade and broader than for two decades.

This improving picture is the main reason for our recent decision to recalibrate our policy by reducing the pace of our monthly asset purchases from €60 billion to €30 billion, starting in January.

Of course, risks emanate not only from our own jurisdiction, the euro area, where we can respond with our monetary policy, but also from the rest of the world. Indeed, while the ECB's Governing Council currently sees the risks surrounding the euro area's growth outlook as broadly balanced, it sees downside risks relating primarily to global factors.

But here too we can manage risks effectively by cooperating closely with other central banks.^[6] This does not mean that we decide jointly on policy actions. It rather means that through our regular bilateral contacts, and dialogues in multilateral fora such as the IMF, the BIS and the G20, we can achieve a better understanding of global risks and their channels of propagation. And when risks do turn into shocks, this cooperation allows us to build up readiness and have the tools in place to react.

Perhaps most importantly, since 2011, the ECB has operated a permanent network of swap lines with the Bank of England, the Bank of Japan, the Federal Reserve and others, allowing all participating central banks to obtain foreign currency in the event of a liquidity squeeze. In 2013, the ECB also established a swap agreement with the People's Bank of China in recognition of its growing systemic importance as well as the rapidly growing bilateral trade and investment between the euro area and China.^[7]

Factoring in political risks

So how do we factor political risks into our decision-making?

I would argue that central banks cannot process political risks in the same way as economic risks, for two reasons.

The first relates to the degree of uncertainty that surrounds political risks.

Here it is useful to recall Frank Knight's classic distinction between risk and uncertainty.^[8] Risk is present when future events occur with measurable probability. Uncertainty arises when the likelihood of future events is

indefinite or incalculable. In conditions of uncertainty, it is not possible to manage risk in the sense of quantifying a range of outcomes. Decision-making then depends on qualitative judgement.

To be sure, this is sometimes the situation central banks find themselves in when surveying the economic outlook. The economy is always characterised by both risk and uncertainty, and there are certain situations – for instance, financial crises – in which models fail and uncertainty prevails. In these cases, central banks still have to take decisions and judgement is the only basis we have.

Yet, I would venture that economic risks are, on the whole, more quantifiable than political ones, and hence more conducive to active risk management. This is because we have workable models of the economy with broadly established parameters and regularities. And even when the parameters of those models appear to change – like the Phillips curve today – they still provide us with a framework to think about those deviations and attempt to explain what we are seeing.

For politics, however, we rarely have such tools.

We may be able to gauge from opinion polls the likelihood of a political change of course happening. We may even be able to weigh up political parties' manifestos and estimate some of the economic consequences of their coming to power.

But fundamentally, we know little about how consumers and firms will react to political developments, and especially to the types of seismic political change that are macroeconomically relevant. Indeed, for such events to be considered a risk they are usually unprecedented.

This means that if we were to engage in managing political risks ex ante, most of the time we would be operating in uncertain circumstances and making judgement calls. I would question whether this could really be called risk management at all. Worse still, it would project us into the political domain on very shaky analytical foundations.

This brings me to the second reason why economic and political risks have to be treated separately, and it relates to the endogeneity between monetary policy and risks. In the economic realm, such endogeneity has been recognised as desirable and is a key reason why central banks have become much more transparent over the past two decades or so.

A clear understanding by the public of how the central bank will react to economic risks automatically reduces the likelihood of such risks materialising. For instance, if markets expect central banks to react to adverse shocks by providing monetary accommodation, easier financial conditions will immediately follow. Such anticipation effects can increase the effectiveness of monetary policy.

For political risks, however, establishing such expectations would not be desirable. If we were to communicate that we will take decision "X" in

response to political outcome “Y”, financial conditions would move as the probability of that outcome rose, and this would potentially prejudice the result. That would be controversial in the case of global political risks. For domestic ones, it would be unacceptable.

Even if the central bank had perfect foresight of the economic consequences, such a reaction function would be seen as undue interference in the political process and it could undermine the effectiveness of monetary policy, instead of increasing it.

And since our assessment would be largely based on judgement not analysis – for the reasons I mentioned – we would find ourselves being accused of political meddling. This is a position that no independent central bank would want to be in.

So when it comes to political risks, we have to be data-driven. We do not prejudge political outcomes. And we do not try to risk-manage their effects on the economy, since we can rarely predict those effects accurately – and worse, we may end up influencing political developments and thereby compromising our independence.

The only way in which we can include political risks in our policy framework is by responding to their visible impact on economic and financial conditions. This does not mean being complacent: we can and must plan for all eventualities. But we react to data, not to political events themselves.

In some ways, this is analogous to the debate about “leaning versus cleaning” of financial bubbles: faced with so much uncertainty about what constitutes a bubble, most of the time it is more efficient for central banks to use macroprudential tools to prick bubbles, or to ease policy after they burst, rather than to try and identify bubbles in advance and deflate them by hiking rates. The risk of false positives is just too high.

Two episodes in the recent history of Europe illustrate our data-dependent reaction function: the threat of a break-up of the euro area in 2012; and the threat of a country leaving the European Union in 2016, namely the United Kingdom.

In the first case, we had plenty of data showing that political risks were spilling over dangerously into the economy and financial system. Markets began pricing in redenomination risk. Financial conditions tightened significantly in some Member States. Bank lending contracted and the euro area entered a second recession. Uncertainty in the euro area, as measured by the VStoxx^[9], was on the rise – as the grey shaded area on my third slide shows.

Although at this point inflation was still being buoyed up by energy prices and indirect taxes, it was plain to see that political risks had become economic ones, and were in turn endangering the medium-term outlook for price stability. We therefore responded by launching a new monetary policy programme – Outright Monetary Transactions (OMTs) – which brought this episode of market turmoil to an end.

We did this, however, in a way that did not pre-empt political decisions. We took stock of the clear commitment of European leaders to hold our monetary union together and make it more solid by establishing a banking union. And we made the OMT programme conditional on countries participating in an assistance programme with the European Stability Mechanism.

In the case of the UK's vote to leave the EU, the situation was different, however. Various forecasts predicted severe market turbulence and macroeconomic fallout, so we had contingency plans in place for a range of outcomes. But as the slide illustrates, there were few signs of uncertainty in euro area financial markets in the run-up to the vote or after it. And, so far, there turned out to be no economic consequences with medium-term impact.

So our policy stance remained consistent with the data: unchanged. And the same logic, incidentally, can be applied to the recent political crisis in Catalonia. Though we monitored the situation very closely, we saw no changes in financial conditions or the economy that would have warranted a monetary policy shift.

Conclusion

Let me conclude.

Monetary policy is a forward-looking enterprise and policymakers always have to think in terms of risks. On several occasions in recent years the ECB has changed its monetary policy in response to emerging tail risks, even when our central forecasts for inflation painted a less alarming picture.

This can be seen as applying a risk management approach to monetary policy, in which we prioritised truncating the most dangerous tails of the distribution rather than targeting our policy at the modal point. The frequent central forecast misses we experienced suggest we were right to do so and we avoided much worse outcomes as a result.

When it comes to political risks, however, central banks cannot be risk managers, since this would bring us too close to being political actors. We can monitor political risks, and we can put in place plans for responding to them – but we can only act when the data justify such a step, and in a way that does not pre-empt political decisions.

Our actions during the crisis clearly demonstrated this reaction function.

Thank you.

Successful Operation against Sexual

Exploitation of Women

[ES](#)

15 December 2017

□Eurojust and Europol have supported coordinated judicial investigations in Spain (Investigative Court no 34 and Prosecution Office in Madrid) and Romania (DIICOT Prosecution Office) to dismantle an organised criminal group (OCG) involved in trafficking women for sexual exploitation in Madrid. On the law enforcement side, the Spanish Guardia Civil and the Romanian Police have joined forces, supported by Europol.

The investigation began in 2016, when the Spanish Guardia Civil received a report from a Romanian woman. She had been recruited months ago in her country of origin by the Loverboy method, a man who made her fall in love with him under false promises of a better life in Spain. Once in Madrid, she was forced into prostitution. Investigations revealed the existence of an OCG, and identified other victims.

Police officers carried out five house searches in Madrid and eight in Romania. As a result, a large amount of documents, cash, guns and mobile telephones and twelve high-value vehicles were seized. In total, nine Romanian women were safeguarded. Proceedings were initiated against eleven suspects in both Member States, and, among those, nine were arrested, including the OCG leader.

Europol supported the investigation by facilitating information exchange and providing analytical support. On the action day, two Europol analysts were deployed to Spain for on-the-spot support including real-time data exchange and cross checks against Europol databases.

Eurojust organised two coordination meetings, with the participation of judicial and police authorities and Europol. To further facilitate coordination, a joint investigation team, which brought together the competent authorities from Spain and Romania, was established in February of this year, with funding from Eurojust, and with the participation of Eurojust and Europol.

To help determine the best-placed jurisdiction and to avoid the risk of a conflict of jurisdiction, a Joint Recommendation was issued on 13 November by the National Members of Romania and Spain and sent to the respective national competent authorities.

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Remarks by President Jean-Claude Juncker following the European Council meetings of 14 and 15 December 2017

Ladies and Gentlemen,

When I first met Jüri, I said to myself that this is the beginning of a great friendship. That is exactly what happened, and like our President I wanted to pay tribute to the Prime Minister, to the Estonian Ministers, to all those involved: excellent job, excellent work. You were preserving unity where others wanted to impose division and so we will always remember with the best feelings possible this first Estonian Presidency, which was an impressive one.

Nous avons discuté au cours de ce sommet un certain nombre d'éléments de politique concrète, dont notamment la mise en pratique du Socle des droits sociaux. Je me félicite du fait que le Conseil européen, dans ses conclusions, exprime l'idée que les ministres et que les membres du Conseil européen vont travailler sur base du programme de travail de la Commission. Nous aurons un premier rendez-vous en mars avec la perspective d'avoir un deuxième en juin, pour conclure tous les éléments relevant du paquet social. Pour nous permettre de faire cela, la Commission va adopter en date du 7 mars un texte sur l'Autorité européenne du travail. Cela est reflété également dans la Déclaration conjointe des trois Présidents des institutions sur les initiatives législatives à prendre en 2018 et 2019. Il s'agit en tout et pour tout de 31 initiatives dont la plupart d'ailleurs ont été déposées par la Commission sur la table du Conseil et du Parlement européen. C'est la deuxième fois que nous nous consacrons à cet exercice après avoir réussi l'année passée avec le Président Schulz; nous avons fait de même avec le Président Tajani. Cela donne de la prédictibilité aux travaux du Conseil, du Parlement et de la Commission; c'est donc notre roadmap pour 2018 et 2019.

Je suis particulièrement satisfait du fait que nous avons, sous Présidence estonienne, fait de très notables progrès pour ce qui est de l'Europe de la défense. J'avais dit en me présentant devant le Parlement européen en juillet 2014 que l'Europe de la défense serait une des grandes priorités de la Commission que j'ai l'honneur de présider. A l'époque – vous vous en souvenez, probablement vous ne vous en souvenez pas – ceux qui ont commenté cette proposition ont dit que j'étais naïf, que j'étais très peu réaliste. Or je constate, après les premières propositions initiales de la Commission, que nous avons fait des progrès qui vont autrement plus loin que les pas que nous avons su faire au cours des 20 dernières années. Je crois donc que sur ce point, nous avons fait du bon travail, notamment en ce qui concerne la coopération structurée permanente qui non seulement voit se réunir dans une même ambition 25 Etats membres, mais qui jusqu'à ce jour ont su se mettre d'accord sur 17 projets concrets. Donc l'Union de la défense ce n'est pas du bavardage, c'est du concret. Et pour ce qui est de la Commission, nous allons faire des propositions qui s'occuperont notamment de la mobilité militaire.

On vous expliquera un jour de quoi il s'agit exactement. Le Fonds européen de la défense, qui verra des capacités communes de défense se mettre en place, va voir le jour. Nous avons fait la proposition en novembre 2016 et je suis content de voir le Conseil européen s'arrimer lui aussi à cette tâche importante.

Göteborg, socle social, n'a pas donné lieu à des entretiens qui auraient été controversés. Mais là encore, comme il ne s'agit pas d'un poème mais d'un ordre du jour qu'il s'agira de mettre en application, nous le ferons avec engagement.

Pour ce qui est de la migration, tout dépend du point de vue. Je prétends que la relocalisation fut un succès. Pourquoi est-ce que je le dis ? Parce que sur 35 245 réfugiés éligibles, 32 683 c'est-à-dire 93% ont su être relocalisés. C'est un petit nombre, dit Donald, et il a raison. Mais c'est exactement ce que nous avons promis lorsque nous avons lancé le projet de la relocalisation. Je ne comprends d'ailleurs pas pourquoi cela peut donner lieu à tant d'émoi. Pourquoi est-ce qu'on croit que la relocalisation mettrait en cause les systèmes sociaux et de civilisation en Europe ? Il s'agit de 35 000 personnes. L'Europe est plus forte, ainsi que le sont ses pays membres, pour pouvoir digérer, absorber 35 000 personnes. Et donc je voudrais que sur ce point on se calme un peu et qu'on s'excite moins.

Je voudrais que les Etats membres contribuent plus à l'African Trust Fund qu'ils ne l'ont fait jusqu'à présent. Je suis d'accord avec tous ceux qui exigent au quotidien la mise en place de la protection extérieure de nos frontières – elle est en place. Il nous manque d'ici janvier 92 officiers, policiers et douaniers en Grèce. Comme tout le monde est d'accord pour dire que la protection des frontières extérieures doit être renforcée, je m'attends à ce que jusqu'en janvier on ait mis à notre disposition ce personnel. Tout comme les 114 officiers, soldats, douaniers dont nous avons besoin en Bulgarie. Il ne suffit pas de dire "il faut faire"; l'essentiel est de nous permettre de pouvoir faire ce qu'on devrait avoir fait depuis quelques mois.

Sur l'Union économique et monétaire, je voudrais d'abord rendre ici un hommage à Jeroen Dijsselbloem, qui va quitter ses fonctions sous peu, tout comme à Thomas Wieser, qui était depuis mon temps la cheville ouvrière de l'Eurogroupe et sans lequel beaucoup n'aurait pas été possible, et beaucoup fut possible grâce à lui. C'est un grand serviteur de l'Europe qui quitte ses fonctions.

Nous verrons en mars et puis en juin quels auront été les progrès nous avons pu accumuler sous le chapitre Union économique et monétaire. Le Président a fait référence aux différents segments d'examen qui sont sous nos yeux et nous y reviendrons le moment venu. Non sans avoir dit que ceux qui nous parlent de la réduction des risques, risk reduction, feraient mieux de consulter les chiffres parce qu'ils verraient que le capital propre des banques a été considérablement augmenté, tout comme les bad loans ont diminué rien que cette année-ci de 16%, ce qui ne nous mène pas à une situation où nous pourrions dire que le problème est résolu, mais qui montre qu'il y a des progrès notables qui ont été faits.

Sur le Brexit je ne dirai rien. J'ai passé ensemble avec Michel Barnier beaucoup de jours et beaucoup de nuits à élucider tous les problèmes qui se posaient dans ce contexte. Vous vous rappelleriez sans doute que vendredi passé nous nous sommes vu, Theresa May et moi-même, à 7 heures du matin – 7 o'clock in the morning, 6 o'clock in London, that was the sanction I imposed on the British Prime Minister. She was a tough, smart, polite and friendly negotiator. We had had a meeting with the group of the European Parliamentarians being involved in this, so we were able to conclude that sufficient progress has been made. Now it is up to us to draft the withdrawal agreement together with our British friends and I hope that this withdrawal treaty will be approved by the European Parliament and by the House in London. Thank you.