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Question: The ECB has stated that there is no danger of contagion to European banks from the problems detected in US regional banks, or even from those affecting Credit Suisse. Are there really no problems?

Answer: The euro area banking system, including, of course, the Spanish banking system, is facing these market tensions when it is highly resilient and has sound capital and liquidity positions. This is the result of regulatory reforms agreed internationally over the last decade. In Europe, these reforms have been applied to all banks, irrespective of their size. The banking system's sound position, along with the forceful response by the authorities, is precisely what has enabled banks over the last three years, in the face of unprecedented shocks, to continue to provide financing to the economy. They have even enhanced their solvency in this period, and have continued to reduce their non-performing loan ratios. The banking system has also increased its profitability – to above the cost of capital over the past year – and has benefited from the positive effect of higher interest rates on banks' net interest income and the increase in fees and commissions. The stress tests conducted within the Single Supervisory Mechanism and by the national macroprudential authorities, including the Banco de España, testify to the system's elevated resilience, even under highly severe hypothetical adverse scenarios.

Q: And what about Spanish banks?

A: All these arguments undoubtedly apply to the Spanish banking system, as I have maintained on many occasions in recent months and as the analysis we publish regularly in our half-yearly Financial Stability Report has shown. The Spanish banking system is resilient and has sound capital and liquidity positions. In fact, as a result of the retail customer-oriented commercial banking business model that predominates in the Spanish financial system, Spanish banks have posted notable earnings figures over the last year.

Q: Does the ECB's announcement that it will supply such liquidity as may be necessary to prevent possible problems at European banks mean that it has become a lender of last resort?

A: What it means is that we at the ECB stand ready to respond as and when necessary to maintain price stability and financial stability in the euro area. We need to remember, as we

underlined in our monetary policy strategy review published in July 2021, that financial stability is a prerequisite for price stability. And I should also stress that we have a very broad range of instruments available to provide liquidity support to the euro area financial system, should it be necessary, and thus preserve the monetary policy transmission mechanism.

Q: In practice, both the United States and Switzerland have announced that the deposits of all bank customers are guaranteed. Does this mean that governments are once again prepared for the taxpayer to end up paying the costs of banking crises, even if part of the bill is footed by the shareholders and bondholders?

A: The swift, forceful decisions taken by the US and Swiss authorities are essential to ensure financial stability and re-establish appropriate market conditions. That is what is important right now.

However, it is also important to stress that, as a result of the reforms approved by the Basel Committee on Banking Supervision, which I chair, and by the Financial Stability Board in the wake of the global financial crisis, we have a resolution framework in the European Union that has been applied consistently on a number of occasions. This framework clearly establishes the order in which a distressed banks' shareholders and creditors must absorb any losses. First in line are the CET1 capital instruments, which include the bank's shareholders and reserves, and only when these have been exhausted would AT1 instruments be used.

Q: The solution to Credit Suisse's difficulties has involved its takeover by UBS. Is there not a significant danger that competition in Switzerland will be compromised as a result of the concentration of business entailed?

A: I insist, the priority and fundamental objective at the moment is to ensure financial stability and, from this viewpoint, the actions of the Swiss authorities should be welcomed. In any event, we must not forget that banks and their customers compete on global markets, so that geographical references are more blurred than for other types of activity.

Q: In the case of US regional banks, apart from severe management failures, their supervision and regulation has clearly not functioned as it should have done. What is your opinion?

A: The US Federal Reserve System has already announced a review of the reasons for what has happened to be released by the 1st of May. We need to wait for this review. The Basel Committee on Banking Supervision will also analyse recent developments, so that we can draw lessons, as we have always done in the past. It is these exercises that enable us to refine regulations to ensure they are adapted to the diverse circumstances that may arise in reality.

In any case, as I said earlier, European regulations have extended the Basel standards to the banking system as a whole, irrespective of bank size, which means that all our banks are subject to the same strict capital and liquidity requirements. Also, in Europe, before these events had emerged, supervisory priorities were established that attempted to

mitigate and anticipate precisely the potential adverse effects of the current macroeconomic context. In particular, the Single Supervisory Mechanism placed the supervisory focus on the interest-rate risk faced by banks and on the sustainability of their funding plans, issues that are crucial in a context of rising rates and withdrawal of liquidity. And when cases of interconnections between the banking system and non-bank financial intermediaries arose, such as Archegos, which particularly affected Credit Suisse, it was also decided to place the supervisory focus on analysing the risks for European banks of this type of exposure.

Q: The Deputy Governor of the Banco de España recently said that the current financial problems made clearer than ever the need to complete the European banking union, with the launch of a European Deposit Guarantee Fund, the creation of which was put on hold some months ago by the European authorities. What is your view?

A: The position of the Banco de España on this issue has been long held and is well known. We have been defending the need to complete the banking union through the creation of a fully mutualised European deposit guarantee fund for a long time. The commitment to deploy such a scheme would have a strong impact on the confidence of citizens and the markets and would contribute to increased risk-sharing in the euro area and, thus, to reducing potential episodes of fragmentation. Also, it would help to align financial responsibility with the banking supervision and resolution decision-making mechanisms, which are already centralised.

Q: Commentators have pointed to one of the problems facing US regional banks as being their high level of investment in long-term debt securities which have fallen in value due to interest rate hikes. Spanish banks have increased their exposure to this type of asset of late. Could this pose a problem for banks' solvency?

A: The share of these portfolios on Spanish banks' balance sheets is similar to that of other European banks and is much lower than it was at Silicon Valley Bank. In addition, it must be borne in mind that a portion of the debt securities held by Spanish banks – like those of other European and international banks – is classified as held-for-sale. In accordance with the regulatory treatment of such portfolios in the EU, they are measured at market prices. Therefore, any potential gains or losses have already been recognised against the banks' capital. This is a very important distinction from the banks you mentioned in your question. European and Spanish banks also aim to hold another portion of their fixed-income portfolios to maturity. Those debt securities are therefore classified and recognised as such. Banks deem these portfolios to be tools for managing balance sheet risks, allowing them to make their balance sheets less volatile and, above all, less procyclical. Held-to-maturity portfolios are accounted for at amortised cost, not at their market value. Only if banks were to sell these portfolios before maturity would the potential unrealised losses materialise, specifically at the moment of sale. Given banks' high liquidity ratios and the improvement in their earnings in 2022, this circumstance is unlikely.

Q: Days before the latest Governing Council meeting, the talk among investors was of both the Federal Reserve and the ECB potentially modifying their inflation targets to focus on financial sector stability. The ECB stuck to its roadmap. Were there discussions about whether to do so?

A: I repeat my previous answer. There is no dilemma whatsoever between financial stability and price stability. The former is a prerequisite for the latter and the aim of ECB decisions is to maintain price stability and financial stability in the euro area. We stand ready to respond however and whenever necessary.

Q: After the meeting, President Christine Lagarde said that three or four members of the ECB Governing Council would have preferred to hold off on raising interest rates by a further 50 basis points. Were you one of them?

A: I was fully behind the decision taken. It was the best way of conveying a strong message from the ECB of our confidence in the resilience of our banking sector and of our commitment to price stability and financial stability.

Q: For years we've been told that liquidity injections, negative rates and debt purchases by the ECB were operating in conjunction to push up inflation. Can these same tools now work separately and can interest rate increases combat inflation while, if necessary, liquidity is injected into the banking sector?

A: At the present juncture, interest rates are our main tool for combating inflation. Instruments to provide the financial system with liquidity support have always been fundamental for central banks. When markets are stressed such instruments play a leading role in maintaining financial stability, preserving the smooth transmission of monetary policy and, therefore, ensuring price stability.

Q: Investors are now pricing in peak rates of no more than 4%. Are you comfortable with that stance or have recent events possibly led them to underestimate peak rates?

A: Investors have recently adjusted their expectations for future interest rate developments and, in light of the latest financial stress, they are signalling a lower peak for euro area interest rates, at around 3.25%. We are not at present in a condition to validate those market expectations. Amid the current high uncertainty, the most sensible thing is to underscore that our future monetary policy decisions will depend on how the different sources of risks, including those witnessed on the financial markets in the last few days, materialise.

Q: The ECB has recently acknowledged that firms are raising their profit margins considerably amid high inflation. As you have stressed the need for a national income pact, what's your opinion on the matter?

A: The aim of the national income pact I have defended since autumn 2021 is to stave off an inflationary spiral. As I have stated on different occasions, the source of high inflation in the euro area and, naturally, in Spain was the surge in the prices of the energy inputs we need in order to produce and consume, but which we lack and thus have to import. We are currently facing what economists call a deterioration in the terms of trade, which entails a loss of wealth and welfare for the Spanish economy as a whole. And this loss is inevitable in the short and medium term. The only thing we can do is allocate it among the different economic agents. The aim of the national income pact is none other than for workers and employers to share this loss fairly. Doing so would also prevent the inflationary spiral that would arise were they both to attempt to unilaterally avoid this loss by maintaining their real

wages and profit margins. Logically, at macroeconomic level, this is impossible. I think such a pact is still necessary.

Q: According to the minutes of the February Governing Council meeting, there was some debate about whether the time to assess the risk of an over-tightening of monetary policy was drawing near. Has that debate intensified? In your opinion, is there much scope to raise rates higher still?

A: The highly uncertain current backdrop reinforces the need for our future monetary policy decisions to be data-dependent. The high uncertainty requires us to be as prudent as possible and not to attempt to signal our future monetary policy decisions in advance. These will be determined by our assessment of the inflation outlook, which itself will depend on three developments. First, on new economic and financial data. Second, on underlying inflation. And, lastly, on the strength of monetary policy transmission. The financial market stress of the last few days could directly impact the latter, by further tightening financial conditions and therefore affecting the economic and inflation outlook. These developments should be taken into consideration at our upcoming meetings.