Mario Draghi is expanding the bank’s reach as more EU integration looms – but the ECB president also likes to delegate.

Reshaping Europe’s central bank

CHANGE AGENT: Mario Draghi, pictured preparing for a speech in November, has brought a new management style to the ECB. REUTERS/KAI PFaffenbach

BY ANDREAS FRAMKE, EVA KUEHNEN AND SAKARI SUONINEN
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The banker now in charge of rescuing the euro wants his top staff to take Sundays off. Mario Draghi, president of the European Central Bank, eschews long meetings and refrains from lecturing his colleagues, senior ECB officials say.

Until Draghi took over a year ago, insiders say, the bank had a workaholic, micro-managed regime. But even as the Italian has proved ready to intervene in the markets and try policies that would have been unthinkable a few years ago, he has brought a freer, more hands-off culture to the bank.

The president knows his own mind, say ECB insiders, but also listens to other board members, uses their talents, and then acts, deploying personal charm to help get what he wants. The man himself says he likes to give colleagues responsibility.

“I trust the people who are working with me. I delegate,” he told Reuters in an interview. “I told people they should take their own decisions. You want to delegate but you want to be informed.”

That culture change, combined with a new team at the top, is reshaping the way the ECB operates. Conversations with senior ECB officials past and present paint a picture of how Draghi is overhauling the bank – not just its policies, but also its management style and the way it interacts with governments - to make it a more pro-active central bank with a mission to secure the euro and foster a tighter-knit currency union.

The preceding ECB president, Frenchman Jean-Claude Trichet, often tried to out-German the Germans with an unswerving focus on fighting inflation in the style of the Bundesbank – the German central bank on which the ECB was based. He was, said one former colleague, “part of the generation of people whose job it was to make France more German.”

Draghi, by contrast, is viewed with suspicion by many Germans. They worry he is jettisoning policies aimed at stability in favour of a fast and loose approach to central banking. At the same time, his more relaxed style is unusual at the ECB. Managers used to feeding information up to the board are now asked to take decisions themselves.

The risk, say critics, is that loose ends are left untied, policy implementation is haphazard and – as the euro zone crisis stumbles on - the ECB loses some of its edge, or even its power.

**BANK OF BROTHERS**

Draghi inherited an ECB roiled by resignations and a boardroom clean-out. Just two months before Draghi became ECB president in November 2011, German Juergen Stark said he was quitting as chief economist, depriving the bank of one of its most experienced policymakers. A shake-up of the six-man Executive Board then left Draghi with an almost entirely new team, including two new board members with no previous central banking experience.

His answer to the problem illustrates the mix of radical policies and consensual management style he has brought to the bank.

Convention held that a German should get the board’s economics portfolio. But Draghi, a 65-year-old Italian, broke with tradition by listening to his five colleagues’ wishes and then dividing the portfolios to suit their strengths. He opted not to give Joerg Asmussen, Stark’s German successor, the economics portfolio. Instead, Draghi put him in charge of the ECB’s international relations - a role that draws on Asmussen’s crisis-fighting experience as a former deputy finance minister.
Belgian Peter Praet, a seasoned central banker with experience at the International Monetary Fund and in the private sector, took on the economics role; and France’s Benoît Coeure took charge of market operations - a role his time at France’s debt agency qualified him for well.

Draghi has charged new board member Yves Mersch, together with vice president Vitor Constancio, with preparing the ECB for its new role as pan-European banking supervisor, due to take effect in 2014.

“Draghi shared the portfolios very well,” said Erkki Liikanen, central bank chief of Finland, who has been a member of the ECB’s Governing Council under both Draghi and Trichet.

Trichet, who declined to comment when contacted by Reuters for this story, had two tough and powerful Germans to deal with during his presidency: Stark and Bundesbank chief Axel Weber, who both quit in 2011 over the ECB’s first sovereign bond-purchase programme. Their firm views restricted his room for manoeuvre.

Draghi leads a more collegial group, which allows him to be more consensual. He listens to colleagues, focuses on the top policy issues and delegates administrative tasks to others.

Trichet’s style was “very different,” said a member of Trichet’s old inner circle who later worked under Draghi. “With Trichet, it was: ‘I want to know everything’. Whereas Draghi says: ‘Tell me the essentials’.”

Unlike Trichet’s regime, when one top ECB policymaker recalls “you had no life”, Draghi is more hands-off. He reads a lot, he bounces ideas off his advisers, and he takes considered decisions.

“In communications, he’s convincing. Because when he has made up his mind, he’s relaxed,” Liikanen told Reuters.

The power of Draghi’s communication skills was demonstrated by his assured vow
on July 26 last year to do “whatever it takes” to preserve the euro – a pledge that marked a turning point in the euro zone crisis.

But in the eyes of many in the euro zone central banking community, Draghi made a mistake when he later singled out Jens Weidmann, incumbent Bundesbank chief and member of the ECB Governing Council, as being the sole ECB policy-maker who opposed a new bond-purchase programme proposed by Draghi.

Stark, who was close to Trichet during their time at the ECB even if they did not always see eye-to-eye, said: “Trichet always made sure to emphasise that he respects Governing Council members’ different views.”

Communication between the board and departments can also be cumbersome. One senior ECB official, speaking on condition of anonymity, complained that senior staff could not meet board members from their own departments in their offices without getting security clearance.

“(The board member) has to go and see them,” he lamented.

That means getting things done takes time and risks creating internal confusion.

POLICY CONVICTION

What Draghi’s management style does do is allow him to focus on monetary policy, and on shaping the future of the euro zone.

The Italian has a breadth of experience most central bankers would envy. After earning an economics doctorate from Massachusetts Institute of Technology, he worked at the World Bank in Washington, headed the Italian Treasury and ran the Italian central bank and the Financial Stability Board, a global regulation body. He also did a stint at U.S. investment bank Goldman Sachs in the run-up to the global financial crisis – a sometimes controversial spell that honed his market awareness.

“I think I have a conviction on how to run monetary policy – I say ‘me’ but in fact it’s ‘we’ – we in the Executive Board and in the Governing Council,” he said in a nod to his team.

“The ECB is making itself a prisoner of politics. If there is a problem with monetary policy, I have to intervene right away and cannot make my action dependent on the behaviour of a third party.”

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Juergen Stark
former ECB policymaker

On policy, Draghi says, his first year at the ECB was “very, very active”.

Since he took the ECB’s helm, the bank has cut interest rates three times, staved off a credit crunch by funneling over 1 trillion euros in cheap, 3-year loans to banks, and agreed a bond-purchase programme that, so far, has won the confidence of financial markets as a credible backstop behind the euro.

Such policies arouse widespread criticism in inflation-wary Germany, where they are regarded as dangerous. Still, Draghi has found an ally in German Christian Thimm, his chief adviser or “consigliere”. Draghi talks to Thimm daily, has promoted him, and uses him to help sharpen views and plans.

The two men share adjacent offices on the 35th floor of the Eurotower, and right from the start met regularly to forge a plan to give investors a clearer vision of Europe’s economic future. They brainstormed ideas before Draghi crystallised his plan: a “fiscal compact”.

In an address to the European Parliament on Dec. 1, 2011, after exactly a month in office, Draghi urged governments to agree this compact on stricter budget discipline and to make a “fundamental restatement” of the euro zone’s fiscal rules.

He and three other top European officials took this message further in June last year, when they urged a more integrated euro zone with a joint economic policy framework and closer political union.

Then in September, Draghi set out details of his bond-buying plan, known as
Outright Monetary Transactions (OMT), to lower the borrowing costs of governments at the centre of the crisis.

Weidmann, the Bundesbank chief, was the only member of the ECB’s Governing Council – the policymaking body made up of the six-member board and the 17 euro zone national central bank chiefs – to oppose the OMT. He regards ECB purchases of government bonds as “tantamount to financing governments by printing banknotes”, a phrase that evokes the hyper-inflation of the 1920s in Germany that led to the rise of the Nazis.

His concerns are shared by many Germans, who worry Draghi is taking the ECB away from the Bundesbank model of an independent, inflation-fighting central bank.

“Generally, the OMT has confirmed in Germany what people expected or feared from him – namely that he would move the ECB away from the German tradition and more towards a Latin-type currency union with a softer stance,” said Clemens Fuest, research director at Oxford University’s Said Business School and an adviser to the German Finance Ministry.

Draghi, who has a disarming sense of humour, recognises that the euro zone is a unique construct full of idiosyncrasies. He has placed a strong emphasis on cultivating a good working relationship with leading players in the bloc, including German Chancellor Angela Merkel. But that has done little to allay the Bundesbank’s concerns about the ECB’s policy direction.

On a rainy day in September Bernd Krauskopf, the Bundesbank’s general counsel, quietly attended a lecture given by the ECB’s Asmussen at Frankfurt’s Goethe University entitled “Stability guardians and crisis managers: central banking in times of crisis and beyond”.

Without introducing himself, Krauskopf ambushed Asmussen with a question about the OMT bond-buying plan.

He asked whether the ECB would be ready to buy sovereign bonds even if the government concerned failed to comply with ECB conditions for its intervention. In a brief answer Asmussen said that if the conditions were not met, there could be no purchases.

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called Draghi “a dove in hawk’s clothing” after the visit and insisted that “inflation will be the bitter consequence” of his plan.

OVERREACH RISK

Does Draghi risk going too far, overstretching an institution struggling to keep up with his activist approach?

In the “vision statement” he co-authored with the presidents of the European Commission, the European Council and the Eurogroup of euro zone finance ministers, Draghi angled for the ECB to take on additional responsibility for supervising Europe’s banks.

Under a landmark deal last month, the ECB will have new powers from 2014 that will give it automatic oversight of around 150 of the biggest banks in the euro zone, and the authority to intervene in the 6,000-odd smaller banks if there are signs of trouble.

Some ECB policymakers - Weidmann at the Bundesbank and others, too - are concerned about this new role. They feel that Brussels and European governments are foisting the job on them simply because the ECB has credibility, a hard-won asset they worry could be lost through conflicts of interest.

“Because the other institutions are weak, they give us the burden, and then they flatter us by saying, ‘You are a great institution,’” complained one ECB policymaker, speaking on condition of anonymity.

The ECB does not want the job to conflict with its monetary policy role. One risk is that the ECB could allow information from its supervisory work to influence its interest-rate setting policy, which should be focused on delivering stable prices.

“It must be within the family but independent, so that we don’t mix up the two tasks,” said Liikanen. “It’s really important we don’t mix these up.”

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