

Andreas Dombret: Mediating between worlds – eight years at the Bundesbank

Speech by Dr Andreas Dombret, Member of the Executive Board of the Deutsche Bundesbank until 30 April 2018, at the Farewell reception, Frankfurt am Main, 4 May 2018.

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Ladies and gentlemen

How time flies. It was mid-April 2010: I was eight years younger than I am today, my hair was far less grey, and I was wearing shorts.

I was enjoying a short break on Majorca when someone from the secretariat of the then Bundesbank President Axel Weber called to say I should collect something of a personal nature from the German consulate in Palma. Naturally, I complied with the request, but with hindsight I was quite unprepared for what lay in store. And that was how I received the certificate appointing me to the Bundesbank's Executive Board under a German flag, dressed in a polo shirt and shorts ...

That was back in the spring of 2010. But as you know, form follows function. So I swapped my shorts for a suit and tie, and made my way, in great anticipation, to the Bundesbank.

Being a trained banker – I am touched and grateful to see that the current CEOs of every bank I have ever worked for are here in this room: Christian Sewing from Deutsche Bank, Dorothee Blessing from JP Morgan, Martin Reitz from Rothschild and Armin von Falkenhayn from Bank of America – as I said, being a trained banker, I always imagined that a central bank would surely be a bit like a commercial bank in one way or another. As you can imagine, I was in for a surprise – and, as it quickly turned out, a pleasant one at that.

If there is one thing I have learned these last eight years, it is that central banks are not the same as commercial banks. And I mean that in a positive sense. That is because of the mandate which central banks follow and which commits them to serving the common good. Another thing that quickly caught my eye eight years ago was how intensely Bundesbankers dedicate themselves to the matter in hand. "Professional goals trump personal progress" is the motto here, and I must say I felt right at home with that *modus operandi* from day one.

The same goes for traditional German economics which, as you all know, is geared to stability and based on rules. That tradition has been my constant companion throughout my tenure here at the Bundesbank. And being an alumnus of the classical school of economics, I am also a passionate advocate of the market economy, committed to stability, and sceptical about excessive government influence. And let's be honest here, with that kind of profile, where better to work than at the Bundesbank?

On a very broad note, I found the Bundesbank to be a place where, without having to disown my ordopolitical beliefs, I was able to devote my attention to my responsibilities and to raise fresh topics – and not just the uncontroversial ones. You can't measure anyone, least of all a banking supervisor – Felix Hufeld will know what I'm talking about – in terms of whether they keep everyone happy. To quote Franz-Josef Strauss: "Everybody's darling, everybody's idiot". I have always been in favour of taking a stance, standing up for clearly defined viewpoints, always being open for dialogue, and positioning the Bundesbank ahead of the curve.

During my term of office, I felt my natural role was as the Bundesbank's ambassador. That was not just how I interpreted the position itself – it was also a deep-seated passion of mine to heighten the Bundesbank's standing – in the world of banking, in the markets, among other German and global institutions, in the fiscal policy sphere, in matters of economic education –

and to accomplish all that not only in Germany, but around the globe.

Hardly surprising, then, that I spent a lot of time – a huge amount of time, in fact – jetting around the world over the past eight years. My wife could tell you a thing or two about that. As the Bundesbank's G20 deputy, the presidencies in Korea, France, Mexico, Australia and Turkey fell within my direct term of office; as for the G7, my tenure coincided with the presidencies of Canada, France, the USA, the United Kingdom and Germany. My role as the Bundesbank's IMF deputy took me on regular visits to Washington, but also to IMF meetings in Tokyo and Lima. On top of that, I travelled to the BIS in Basel, the OECD in Paris, and the European Parliament and the Commission in Brussels, and so on.

I have a confession to make: extending our network of Bundesbank representative offices was particularly close to my heart, and I am pleased to say that we stabilised this network during my tenure and added two new locations – Istanbul and Pretoria. Now we have representatives everywhere we want to be represented.

You will no doubt have gathered by now that the international dimension was always particularly important to me. Indeed, I recall my first Franco-German financial summit in 2010, where I had the privilege of standing in for Bundesbank President Axel Weber. On the French side, Banque de France governor Christian Noyer was represented by his deputy, and my colleague and friend, Jean-Pierre Landau. Christine Lagarde, still the French finance minister at that time, looked at the two of us before turning to German finance minister Wolfgang Schäuble to say: "Well, Wolfgang, if the representative of Germany's central bank has the surname Dombret and the one from France is called Landau, there isn't really much point in holding these Franco-German summits any more, is there? ...".

But representing the Bundesbank externally was just one part of my duties. Being a manager, I aspired to mould my surroundings a little from the inside as well. But ultimately, the Bank is one of those places where the institution moulds its Executive Board, which is why I am now proud to say that I am a Bundesbanker.

At the same time, I am pleased to have implemented one project or the other within the Bank. I never regarded the Bundesbank as an ivory tower out here in the Ginnheim wilderness. Interaction with the markets and dialogue with the banks was a cause I genuinely believed in – one which I both pushed and encouraged. With all due distance, I always felt that permeability between the worlds – between the central bank and politics, between supervisors and banks – was particularly important.

Parallel worlds – or "echo chambers", to use today's parlance – are of no use to anyone; hence my enduring commitment to forging a constructive and open relationship between central bankers and bankers. I dare say my mission to bring banks and supervision closer together over the past eight years has been successful – and I'm talking here not about nepotism or fraternisation but about nurturing a greater sense of mutual understanding.

In this vein, I would also like to take a stand against the wholesale criticism levelled against bankers who "switch sides" like Mario Draghi or, more recently, Jörg Kukies – after all, I'm one of that ilk, too. If you ask me, what we need is more interaction and more dialogue – and never more so than in times like these in the face of increasingly complex topics. Taking on an official post for the res publica is always something of a commitment, and I do hope that many more bankers will offer to take a public position. Rest assured: the experience of working in an official capacity for the common good is far more rewarding than advocating the interests of the few. And who is better placed to say that than me, having lived in both worlds?

The work that piled up on my desk these past eight years encompassed a wide variety of topics. The term of office of Carl-Ludwig Thiele and myself was undoubtedly an era marked by substantial change, and events kicked off during our very first weekend in office, when the first

Greek rescue package needed to be assembled in Basel amid intense political and time pressure. Carl-Ludwig Thiele and I spent our first week at the Bundesbank attending two meetings a day of the Bundesbank's financial crisis team – believe you me: that was a particularly intense way to get started back in May 2010.

Much has changed since then. The period of low interest rates is posing an entirely new set of challenges for the banking and central banking communities. Supervision of large institutions has now evolved into European supervision. Structural change in the banking world, sparked by the triple whammy of low interest rates, digitalisation and regulatory reforms, is something we all need to get to grips with – credit institutions, central banks, banking supervisors and not least consumers and bank customers. I would not be exaggerating if I said these were the stiffest challenges in decades. Looking to the future, I dare say that geopolitical risk might prove to be more significant than economic risk. Let's hope I'm wrong.

Just as times have changed, so, too, has the agenda. Ask me to select the headlines for my term of office at the Bundesbank and I would pick out topics like the capital markets union, of which I was an early advocate in spite of some resistance. There are other subjects such as the profitability of credit institutions in Germany, Brexit and everything it involves, and not forgetting the emergence of new FinTech players. Lastly, Basel III presented a very special challenge for me – I fought on the front lines for many years in the interests of banking stability, and you can take it from me that I had my eyes firmly set on what was best for Germany. And I hope that the reforms will now indeed be implemented in a proportionate manner for smaller institutions. That was something which I, for one, supported from the very outset, and I would say we are on the right path. Negotiating and extending the IMF's bilateral borrowing agreements, adding the yen, Australian dollar and renminbi as reserve currencies, expanding the Bundesbank's risk control capacities, and establishing the "House of Microdata" in the Bank's Directorate General Statistics also feature in my track record over the past eight years. And if you find one or the other sculpture here on the Bank's grounds aesthetically pleasing or displeasing, the chances are that's another thing I will have to take responsibility for.

One final important issue, I found, was to highlight the climate risks lurking on bank balance sheets as a direct impact of climate change and to call for change. Hence our decision to dedicate this year's annual banking supervision symposium in its entirety to the topic of climate change and sustainable banking – and a large majority of the participants hailed it as a resounding success.

It goes without saying that there is still some unfinished business on my desk after eight years in office. First, I would dearly have loved to install a regulatory sandbox in Germany as a way of nurturing and learning from the FinTech sector – but not everyone in Germany backed that initiative. Second, I would have liked to have done more to harmonise financial reporting standards; I'm sad to say that the IFRS and US GAAP today are further apart than they were in 2010. Third, there is the matter of the regulatory treatment of government bonds – an international accord on this topic has now become a rather distant prospect, much to my regret. But giving up is out of the question.

And lastly, risks at the Bundesbank have increased dramatically over the past years as a result of both the asset purchase programmes and the recent rise in interest rate risk. In a clear sign of heightened risk, we have had to add €14.5 billion to our provisions for general risks since I took over responsibility for the Bundesbank's risk control function. If you had told me, when I took office, that the Bundesbank's balance sheet – of which I have been a co-signee for eight full years, remember – would expand more than three-fold, that TARGET2 claims would make up roughly half of total assets, and that more than 40% of our interest income would be generated by negative interest rates, that would have been beyond the stretch of my imagination. Pressing ahead with asset purchase programmes for all eternity certainly cannot be the answer to every problem – on the contrary: the longer they run, the greater the cost will be.

I hope my successor – whom I wish every success in his new post – will be able to report that all of the points I have just mentioned have turned out differently when he leaves office.

Ladies and gentlemen, *tempi passati* – my time at the Bundesbank has come to an end, and I've finally reached the finishing line of my term of office. And you now see me not just in a suit, but also in a thoughtful and slightly sentimental frame of mind.

But just as the years have flown by, so, too, have the minutes here today. I'm fast running out of speaking time, so all that remains is to thank everyone. I will begin by expressing my sincere personal gratitude to Axel Weber and to you, Jens Weidmann. It was an honour to work with two such outstanding presidents. Mr Weidmann, I got to know you about ten years ago and have been able to observe you close up over the past seven. I hope your path in the world of central banking takes you a very long way yet. And I know I'm not the only one hoping this.

And before I give the floor to you, Carl-Ludwig Thiele, let me express my wholehearted thanks for our fruitful cooperation and your friendship. We will remain on close and cordial terms in the future, too. Carl-Ludwig, I wish you the very best!

My special thanks go out to all the Bank's employees. It meant a great deal to me to have worked directly with so many of you. Just as the Bundesbank should not be an ivory tower, nor should the Executive Board be one, either.

I managed to say goodbye to many colleagues, but sadly not to every single one of them, so I would like to use my speech to say that no matter how obscure and complex my questions were, you never failed to give me a well-founded and reasoned answer. That is one of the Bundesbank's greatest strengths.

So thanks to all of you for the invariably good and loyal cooperation. Over the past eight years I have crossed paths with many colleagues not just from the Bundesbank, but also from the other central banks, the Finance Ministry and BaFin, and I have learned a great deal from you, been able to put a lot of work into practice, and have much to thank you for. Thank you from the bottom of my heart for all the support I have received both within and outside the Bundesbank.

Being unable to express my gratitude to everyone in person, I will have to make do by expressing my cordial thanks to "my" Directors General: Messrs Bartholomae, Bischofberger, Fehr, Loeper, Reischle and Ziebarth and Ms Sung. Yes, and even Joachim Nagel belongs in that group, albeit for only the first six months of my term of office ...

I am also deeply indebted to my office team – Ms Sattler, Ms Schultz, Ms Walker and Mr Bechmann – without whose fantastic backing I would have been left high and dry – I knew I could always count on you. My secretary Ms Schultz and my chauffeur Mr Bechmann have even been with me through thick and thin over my full eight years at the Bundesbank.

I hope you have all recovered from the shock I imagine you got on Wednesday of suddenly no longer receiving any e-mails from me, which I often sent before sunrise and late into the night.

There are also a number of names outside the Bank I would like to mention at this point. First, I would like to thank Agustín Carstens, not just in his capacity as a representative from the Bank for International Settlements but also as one of the many international central bankers and government representatives I have had the privilege of working with, some of whom have joined us here in Frankfurt. I am delighted to see him here with us today.

Second, I would like to mention Danièle Nouy and Sabine Lautenschläger as representatives of the still-young European Single Supervisory Mechanism. It's quite remarkable to see what has been built up over the past four years, and I am proud to have made my own small contribution under their leadership.

Third, I would like to thank Thomas Steffen, to name just one of the colleagues at the Ministry of Finance and at BaFin, for the particularly close and trusting working relationship over the past years. Thomas, we touched base regularly, and our shared views on many issues benefited our joint endeavours.

Let me also thank Mr Trenkler and the Kronberg Academy for their wonderful musical programme today.

And last, but by no means least, I would like to thank my wife for her support and for her understanding when I was out on the road yet again instead of at home. She told me earlier that this is the wrong time and place to say anything more on this topic.

It was always with a sense of pride that I carried my Bundesbank business card in my wallet, and I never wanted to work for any other institution over the last eight years. This pride is imbued in part by the strong credibility which the Bundesbank continues to enjoy – and rightly so. This credibility is an asset in itself, and its importance for Germany cannot be overstated. I have benefited hugely from it. If I had a wish, it would be that politicians never call this precious asset into question.

Ladies and gentlemen, I mentioned at the beginning of my speech that the Bundesbank is not a commercial bank – I've grasped that now. The Bundesbank is the Bundesbank, and it always will be the Bundesbank. I already decided last summer that I would not be available for a second term of office for personal reasons. And no matter where the next stop on my career path will be, I do hope that it will be a little bit like at the Bundesbank.

Thank you for all your valuable support and for your kind attention.