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Q&A

Towards a sustainable financial sector

WHAT ARE THE MAIN PRIORITIES OF THE FINNISH EU PRESIDENCY IN THE FINANCIAL AREA AND THE MAIN EU POLICY INITIATIVES THAT THE PRESIDENCY IS FOCUSING ON?

The Finnish Presidency of the Council of the EU will work to promote the Union's common values and strengthen its competitiveness and social cohesion as key priorities. A competitive and cohesive Europe depends on well-functioning internal markets, with deep capital markets, resilient banking sector and a strong crisis-resolution framework. It needs to be supported by a simple and effective economic policy coordination framework that recognizes the ultimate responsibility of each Member State over its economic policies. It also requires a fair and efficient system of taxation that supports economic growth, competitiveness and employment.

The Finnish Presidency will seek ambitious progress in our common fight against climate change. Sustainable economic growth, actions to mitigate the climate change and achieving compliance with the Paris Agreement are important priorities nationally, in the EU and in the context of our Presidency. Economic policy planning, fiscal policy including carbon pricing, budgetary planning, public financial management as well as mobilisation of climate finance are relevant and effective tools in financial sector to mitigate climate change. Climate change aspects need to be integrated into the Finance Ministers' work. As a concrete measure, we aim to develop, in cooperation with the Commission, an action plan for Finance Ministers on climate change. One of the key EU legislative files regarding climate change is the taxonomy for sustainable investments. We aim to reach a political agreement with the European Parliament on the file. We will also have discussions concerning climate change on the strategic long-term vision for a climate-neutral economy and initiatives related to taxation, such as energy taxation. The Ministry of Finance of Finland is

also organizing with the Bank of Finland the Greener Finance for Sustainable Future Conference in October in Helsinki.

The Finnish Presidency will also seek comprehensive action to protect Europe and its citizens against internal and external threats. Financial sector provides services that are essential for the functioning of our societies, yet it may be vulnerable for many forms malicious interference. Finland will launch a discussion on the resilience of our financial infrastructure against hybrid threats. Fight against money laundering and terrorist financing will also be one of the key topics during the Finnish Presidency and the work will continue on the basis of the Commission's post-mortem reports. The Presidency will invite the ECOFIN Ministers to adopt Council conclusions on a strategic agenda on the AML.

Finally, only a healthy banking sector can finance the investments needed for technological innovations and actions to mitigate climate change. Determined efforts are therefore needed to continue reducing risks in the European banking sector. The Finnish Presidency is committed to continue the work on the strengthening of the Banking Union, in coordination with the High-Level Working Group on EDIS, and will seek to advance the negotiations on the proposals still on the table related to non-performing loans.

WHAT SHOULD BE THE MAIN PRIORITY FOR THE INCOMING COMMISSION IN THE FINANCIAL SERVICES SECTOR: DEEPENING INTEGRATION, BOOSTING GROWTH OR STRENGTHENING FINANCIAL STABILITY?

Europe is in its seventh consecutive year of economic growth. Much of this is thanks to determined reform efforts over the past years. Yet, risks to the favorable economic development are evident, which underlines the need to continue with the reform efforts – both at the national as well as at the Union level. At the same time, beyond the immediate risks to economic growth, the Union faces broader challenges to its prosperity, cohesion and security.

To attain sustainable economic growth, the EU must work systematically to establish a fully-fledged banking union, a robust crisis management framework and a more resilient capital market. The banking union is an important element in a more stable EMU. The remaining building blocks of the banking union are well known. However, the legacy issues need to be tackled before further risk sharing is possible. Political acceptability requires a sufficient degree of fairness, and that means that banking union needs to look like proper insurance, not one-sided subsidisation. The ongoing work at the High-Level Working Group on EDIS provides an opportunity to agree on necessary reform agenda for the completion of the banking union.

A proper Capital Markets Union (CMU) is needed to complement the banking union. It would deepen the market integration across Europe thus boosting growth and also contributing to a more resilient EMU through private sector risk sharing across member states. We expect the new Commission to continue this work beyond the Finnish Presidency, for instance in the sustainable finance area, in anti-money laundering as well as ensuring resilience and stability of key market infrastructures against operational risks.

Finally, the Commission is preparing a comprehensive review of the economic governance framework (focusing on the six-pack and two-pack) by December 2019. The Ecofin Ministers should contribute to this review with their experience of implementing

the current framework in Member States. This backward-looking discussion could cover also the Macroeconomic Imbalances Procedure. Moreover, the Ministers should discuss possibilities for reforming the fiscal rules with a view to make them simpler and more easily understandable and implementable.

WHAT IS THE WAY FORWARD FOR THE CMU? DOES THE PROJECT NEED REFOCUSING OR REDESIGNING?

Although much has been achieved, substantial work remains to be done in the context of the CMU. The Finnish Presidency considers it necessary to have an updated plan on how to pursue the CMU further. There are still legal or regulatory barriers against smooth movement of investments and related services. The Finnish Presidency will launch work towards a new roadmap for the next phase of the CMU for the next institutional cycle.

Legislative files related to CMU that are still on the table need to be finalized and the Finnish Presidency aims to conclude the negotiations on taxonomy for sustainable investments and crowdfunding and advance the negotiations on central counterparty recovery and resolution.

In the future work on the CMU, the Finnish Presidency would like to emphasize the angle of retail clients, who should benefit from digitalization and the removal of technical and legal barriers to accessing financing or financial products. In addition to enabling the service-providing entities to improve their efficiency as well as quality of their services, CMU 2.0 should focus on building retail client confidence through providing EU-wide high-quality, user friendly and cost effective retail financial services and products.

Through well-functioning capital markets private investors contribute to spreading the investment risks across the economies, which are currently too much reliant on bank lending. This would also contribute to a more resilient banking sector and more broadly the European Monetary Union in general.

WHAT ARE THE MAIN OBSTACLES TO THE DEVELOPMENT OF THE GLOBAL ROLE OF THE EURO? IS THIS A PRIORITY?

The global role of the euro mainly reflects the economic strength and financial stability of the EU. To this end, the focus has been in finalizing the Banking Union and making further progress with the Capital Markets Union. Strengthening the international role of the euro should be considered more of a positive spillover effect of this than an aim in itself. ●