Q&A

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Completing the Banking Union and the Capital Markets Union for a stronger EU at home and abroad

HOW DO YOU SEE THE STATE OF PLAY OF THE BANKING UNION? CAN THE DEEPENING FRAGMENTATION OF THE EU BANKING MARKETS ALONG NATIONAL LINES BE REVERSED ON THE BASIS OF WHAT HAS BEEN ACHIEVED?

Europe's more than 5000 banks play a crucial role in our financial system, so a strong and integrated Banking Union has been and remains one of my top priorities: first, because it is essential for ensuring financial stability and deepening the Economic and Monetary Union. Second, because it decreases the burden on taxpayers, by helping to replace public risk-sharing with more private risk-sharing. And finally, because it helps to ensure a level playing-field for banks to expand cross-border and compete across Europe.

Thanks to the Banking Union, the euro area now has a single supervisor for large banks, a single framework for resolving failing institutions, and a single fund to finance those resolution activities. And over the past years, the European Commission has continued making important progress towards a safer and more robust banking sector.

For instance, we have completely overhauled our prudential framework for the single market. We have transposed internationally agreed prudential standards into EU law, while taking into account European specificities, and even going beyond what is required by the Basel rules. And in December, we reached a deal at EU-level on the banking package. It complements the risk reduction progress already achieved, and lays the basis for further strengthening the Banking Union.

Today, the Banking Union is steadily delivering results and lowering financial risks:

- Overall, European banks are better capitalised, less leveraged, and with higher liquidity buffers than before.
- The average level of non-performing loans in the EU is down to 3.3% as of the third quarter of 2018, according to the ECB.
- And as part of the banking package, EU lawmakers agreed to treat the Banking Union as one entity when identifying systemically important banking groups. This removes another impediment to a more integrated banking market.

Nevertheless, European banks still face major challenges. In particular, low interest rates, still high levels of non-performing loans in some countries, and competition from Fintech firms is pressuring European banks to consolidate. Despite the many systemic improvements, banking markets in the Banking Union remain more fragmented than before the crisis.

In light of the progress achieved on reducing risks in the banking sector, we should now push together to tackle the gaps in the Banking Union. These include a common backstop to the Single Resolution Fund and a common deposit insurance system. This would promote the cross-border integration of our financial sector, further improve its capacity to absorb shocks, and set Europe's banks free to compete on equal terms across the continent.

THE COMMISSION SET OUT PLANS TO CREATE A CAPITAL MARKETS UNION IN THE EU. AS THE TERM OF THE LEGISLATURE COMES TO AN END, HAVE WE ACHIEVED THE OBJECTIVE? WHAT IMPACT MAY BREXIT HAVE IN THIS RESPECT?

This Commission has worked consistently to put in place the key building blocks of the Capital Markets Union (CMU), so that firms and investors can access market funding on equal terms, no matter where they are located. The aim is to diversify funding for EU companies, to reduce their reliance on bank funding only.

Our determination to complete the CMU comes from the real benefits that well-integrated and liquid capital markets can bring to Europe's citizens and economy:

- For example, in terms of financial and economic stability, CMU can help to cushion country-specific shocks and mitigate overall financial risks in the Economic and Monetary Union.
- And in terms of job creation, CMU can help attract investment from abroad, and channel private funding to the most innovative and productive companies and projects here in the EU.

Today, we can look back on the substantial progress that we have made. During this Commission, the EU has adopted or agreed a range of new CMU proposals, so let me name a few of them:

- we have agreed new rules to boost the ability of investment firms to help companies tap capital markets, manage assets, and provide market liquidity;
- we have new rules on prospectuses and on SME Growth Markets, so companies can seek more funding from stock markets across the EU;
- we have a new approach to insolvency, to help viable companies restructure early, and give honest entrepreneurs a second chance;
- and we have a new pan-European personal pension product, and measures to improve the EU's investment fund market, which will provide new saving and investment opportunities for consumers;
- On top of that, there is more new Capital Markets Union legislation, which has been agreed and adopted only in the recent weeks.

Meanwhile, there are already some early positive signs of stronger integration in the EU, as firms increasingly access capital market funding to complement their bank lending. For example, the cross-border distribution of EU-labelled investment funds has grown steadily.

I hope and expect that work on CMU will continue also in the next Commission. In any event, future actions will need to reflect the impact of Brexit on capital markets, including by ensuring that all critical functions of the EU's capital markets are properly regulated and supervised. We also need to keep preparing for the fundamental and rapid changes arising from climate change, the decarbonisation of the economy, and developments in financial technology.

ARE THERE AREAS WHERE EUROPE SHOULD BUILD AN AUTONOMOUS INTERNATIONAL SYSTEM OR, AT LEAST, STRENGTHEN ITS CURRENT MECHANISMS IN ORDER TO BETTER PROTECT EUROPEAN INTERESTS? HOW TO MOVE TOWARDS THIS OBJECTIVE?

With recent challenges to international rules-based governance and trade, and the eastward movement of the world's economic centre of gravity, the world is clearly becoming more multipolar.

In this context, Europe should remain the standard-bearer for global cooperation, multilateralism, and democracy. But we should also recognize that to successfully promote our values abroad, we need to better protect our economic interests globally. This calls for strengthening the international role of the euro, which is the world's second most-used reserve currency, after the US dollar. And last December the Commission adopted a strategy to achieve this.

By further reinforcing the global role of the euro, we can support a more diversified and resilient international financial system. And we could lower currency conversion costs, interest rates, and exchange risk for European consumers and businesses that trade internationally.

Of course, achieving a greater role for the euro depends ultimately on the choices of market participants. But I believe having the right policies in place will help greatly:

For example, a strong currency is built on strong foundations, so we need to complete the architecture of the Economic and Monetary Union. We need to back up the euro with the full range of stable financial services and infrastructures, because deeper and more integrated markets can help businesses fund themselves at lower costs. This means we should complete the Banking Union and the Capital Markets Unions.

We should also make sure that Europe has resilient financial infrastructures, and one particularly relevant example is payment systems. With recent launches by the European Central Bank and by EBA Clearing of infrastructure solutions to process instant payments, we now have the capacity to develop a pan-European network for instant payments. This could potentially disrupt existing payment solutions - including cards. The European Commission is ready to help develop the appropriate standards in a way that is open and fair for existing and new operators.

We also need to promote the use of the euro in international energy agreements and in trade. In fact, there are a number of strategic sectors where the euro can play a bigger role, such as food commodities, aircraft building, and raw materials. But maybe most important of all is the energy sector. Today over 80% of Europe's energy imports are priced and paid for in US dollars. Therefore we are looking at policies that can increase the use of the euro in contracting and transactions in these sectors.

And finally, we should seek to develop Europe's economic diplomacy, by engaging with global partners to promote the use of the euro in payments and as a reserve currency. Europe is an important geo-political actor with real economic influence, and we could better make use of this position to reinforce the international role of the euro. ●