Mairead McGuinness

Commissioner for Financial services, Financial Stability and Capital Markets Union, European Commission

Keynote speech

Introduction

Ladies and gentlemen,

Thank you for the invitation to speak to Eurofi today on two of the Commission's flagship projects: the Banking Union and the Capital Markets Union.

You could be forgiven for asking if yet another speech on the completing the Banking Union and advancing the Capital Markets Union will make a difference. And certainly I've made a number of speeches on these topics in six months in the job! These two projects are very different, yet they have one big thing in common: matching ambitious goals with tangible progress. We want to show that Europe can deliver.

The current political climate is tense: COVID-19, restrictions on social interactions, frustration with delays in vaccination. We risk fatigue and an erosion of trust. But as much as a crisis is a problem, it can present an opportunity.

A big crisis needs a bold response.

A crisis is a chance to reinvigorate old possibilities and take up new ones. We can show that Europe brings results.

It is a time to be audacious, in finance as well.

At the Euro Summit in December, Eurozone leaders gave renewed political backing to the Banking Union and the Capital Markets Union. In June, the Euro Summit needs to translate that into concrete action.

Banking Union

As you will recall, the Eurozone debt crisis demonstrated very clearly that Euro-area national banking sectors were too closely linked with national governments.

Fragile banks and bank bailouts can impact national finances. In turn, if governments have high debt levels, the exposure of banks to sovereign bonds becomes riskier. And fragile banks lend less, which slows down economic activity and reduces government revenue. That's the doom-loop that we saw in the Eurozone debt crisis.

The Banking Union aims to break this vicious cycle.

It's about ensuring greater financial stability and strengthening the single currency by integrating the euro-area banking system more deeply. It is an essential part of a genuine Economic and Monetary Union.

Since starting work on the Banking Union, we managed to establish a Single Supervisory Mechanism and a Single Resolution Mechanism – the first two pillars. But we didn't get any further. Unfortunately, we stopped half way through. Difficult but necessary decisions and compromises became ever harder to make as memories of the crisis faded.

Right now, we have reached a new crisis. But banks have proved resilient, thanks in no small part to our post-crisis reforms. Despite the economic shock resulting from COVID-19, we have – so far – avoided a financial shock. But this crisis is a reminder that our work is incomplete.

We are still missing the third pillar of the Banking Union, a European Deposit Insurance Scheme and a solution for liquidity in resolution.

A common European deposit insurance scheme would increase financial stability and depositor confidence by pooling funds at the European level. It would also reduce the vulnerability of national deposit guarantee schemes to local shocks. Our ambition has not changed.

The Commission continues to believe that the Banking Union will only be complete when EDIS is in place and that in the end we will need a set-up involving loss mutualisation. Work on a hybrid model is a first step.

On liquidity in resolution, we need to make progress on a robust public mechanism, as exists in other jurisdictions.

In June, the Eurozone leaders will meet to translate their December commitments into action. Now I don't underestimate the challenges that we face. We will not agree on everything in June. But we need to set things in motion.

We need a comprehensive plan with enough political consensus so we can make progress on the individual pieces of the puzzle afterwards. I hope we will have the courage to do that.

The global financial crisis started almost 15 years ago. It's time we complete the post-crisis reforms, put that era behind us, and focus on the challenges of the post-COVID world.

Capital Markets Union

The EU's top priority is to overcome the pandemic and the resulting economic crisis. The Capital Markets Union can contribute to the recovery by providing deep, liquid, integrated capital markets. COVID-19 has exposed weaknesses in the EU economy. We've seen that we need to widen access to alternative sources of funding for our companies, beyond bank loans. Efforts towards a genuine single market for capital are not new.

They started with the Treaty of Rome more than sixty years ago. The Treaty set out a vision for the common market, based on the principle of four freedoms of movement: for goods, people, services – and for capital.

We renewed that commitment to a genuine single market for capital in Europe in 2015 with our first CMU Action Plan.

In the Commission we've completed all the actions announced in that plan. But we're not finished yet.

Progress has been especially slow in areas governed largely by national laws, such as non-bank insolvency and company law. Wide divergence in these areas gets in the way of cross-border investment. Making progress will not be easy. But large, integrated capital markets are essential to deliver our key economic policy objectives.

The benefits are not limited to financial market participants. The CMU is closely linked to:

- the post-COVID recovery,
- an inclusive and resilient economy;
- the twin transitions towards a more digital and sustainable Europe; and
- Europe's global competitiveness and open strategic autonomy.

The new CMU Action Plan adopted last autumn aims to help us overcome the remaining barriers. And it has three core aims:

Making funding more accessible to European companies and supporting more long-term equity financing;

- Making the EU an even safer place for individuals to save and invest long-term; and
- Integrating national capital markets into a genuine single market, ensuring that access to financing is not limited by national borders.

To that end, in the coming months we will review the Solvency II framework to facilitate long-term and equity investments by insurers.

We'll propose a Single Access Point to provide investors with seamless access to company information across the EU. We'll review the framework of European long term investments to enable retail investor participation and encourage investment in digital and green projects. And we'll propose the long-awaited consolidated tape.

In parallel, we are doing the spadework on structural issues like non-bank insolvency and cross-border taxation procedures.

They are politically sensitive areas – but will be key for making progress in the medium to long term.

I'm glad that everyone agrees about the political objectives of the CMU. I'm hopeful that means we can reach swift agreement when the legislative proposals are published.

The new measures will require strong political commitment from all involved, during negotiations and when it comes to putting measures into force.

We need support from everyone to make sure that proposals bring tangible results towards deeper capital markets to increase the EU's financial firepower.

Closing

We should make progress on both the Banking Union and the Capital Markets Union, at the same time. Of course, they are different: the Capital Markets Union does not need public risk sharing, it does not need an institutional overhaul and it is an incremental project without a single vision of the end point. But these two projects can reinforce each other.

The Banking Union addresses weaknesses in the banking system. Meanwhile, the Capital Markets Union will reduce the reliance of the EU economy on bank funding. The Banking Union aims to increase the resilience of our banks. That will in turn support the development of EU capital markets, as banks are big players on financial markets, providing services to both issuers and investors. A well-capitalised banking system is more likely to support the smooth functioning of capital markets in times of crisis, for example by avoiding fire sales of assets or extreme price movements.

The CMU will strengthen the resilience of the banking sector, by increasing private sector risk-sharing across the EU, through cross-border holdings of financial assets. That will allow for greater shock absorption by markets in times of crisis.

In short, the Capital Markets Union and the Banking Union complement each other.

I am determined to make decisive progress on both in the coming months. The financial sector underpins the real economy.

So this work is important not only for financial market participants but also for citizens and businesses in the wider economy.

Keeping credit flowing to households and companies, making more financing options available for start-ups, giving people more options to save and invest for their future.

Integrated capital markets and a strong banking sector will help us recover from the current crisis and facilitate the transition towards a greener, more digital economy.

I look forward to working together to finally deliver on our ambitious promises.

Thank you.