



Exchange of views

Xavier Musca - Deputy Chief Executive Officer, Crédit Agricole

David Wright - President, EUROFI

David Wright (Chair)

David Wright stated that he is delighted to have an exchange of views with Xavier Musca. He thanked Crédit Agricole for all their support of Eurofi over many years, including being an institutional supporter in Ljubljana.

Xavier Musca has had a stellar career. He has been the director of the Treasury; he has served in the Cabinet of the Prime Minister; he has been Directeur de Cabinet of the Minister of Finance; he has been the Secretary General of the President of the République française; and he is now the deputy chief executive officer of Crédit Agricole.

David Wright (Chair) noted Xavier Musca's enormous European experience and asked him for a very crisp view of how he sees the European Union's (EU) main economic and financial challenges. David Wright (Chair) and Xavier Musca would then discuss climate finance and the financing of the environment in the future, which is very important to Crédit Agricole.

Xavier Musca

Xavier Musca stated that it is possible to be positive about what is happening for a variety of reasons. The first is that the recovery is there. The level of gross domestic product (GDP) in France at the end of 2021 will be comparable to the one before the crisis. In all EU countries, growth is booming. It is interesting that the most pessimistic scenario from one year ago has not materialised.

There are also important features that are more structural. During this crisis, the EU has made some progress that has to be underlined. Firstly, there has been real coordination of macroeconomic policies for the first time. There is now an EU recovery plan, NextGenerationEU (NGEU), which is supported by the European Commission and the EU. The objective is to push for structural reforms because it encourages member states to make the necessary investment to raise their growth potential. A significant national resilience plan has been put in place in all member states. It has created a confidence effect that has had very positive consequences on both the confidence of consumers and the solidity of the corporate sector.

For the first time, there is an agreement to raise debt significantly at EU level, which a real change. This policy, together with the European Central Bank (ECB) intervention, helped maintain the spreads between member states at a low level. Divergence between Member States, seen during previous crises, in particular during 2011-12, has not materialised.

The last positive element is the situation of banking institutions in Europe. Before the crisis, voices raised concerns about the high level of non performing loans (NPLs) and European banks being uninsured. However, they have very successfully passed the very demanding stress test conducted by the ECB: On average, the core equity tier 1 of the banks is 9.9% under these hypotheses, which is quite high. Xavier Musca encouraged considering the very bleak scenario against which assumptions were built. This NPL issue is on the way to being resolved. The NPL ratio decreased from 3.2% to 2.5%. In the countries in which the level was the highest, it decreased even more.

The real problem the banking industry is facing is the question of profitability, which was at 6.8% before the crisis. Xavier Musca doubts that it will rebound at a very high level. This is linked to the fact that there has been little progress on the road of cross border consolidation, despite domestic consolidation in Italy and Spain for instance. That has not happened because there are still a lot of hurdles that have not been lifted, notably regulatory ones. In this respect, Xavier Musca is less optimistic because there is not a very strong will to realise a real banking union, and there has been very little progress on Capital Markets Union (CMU).

This is combined with the fact that the translation into EU regulation of the 2017 Basel agreement could require higher capital than was initially promised to the banks. Xavier Musca remembers hearing about a commitment that translation of this agreement should not trigger a very significant increase in capital requirements or threaten long term profitability of the sector. That is not good because this profitability is necessary to address the challenges that will be faced in the future, including digitalisation and the climate change issue.

Despite more concerning long term issues that have not been resolved, Europeans can be proud about the progress made collectively during this period and the improvement that the EU and the eurozone have achieved during the past year.

David Wright

David Wright asked Xavier Musca what his concerns around the climate and related financing issues were.

Xavier Musca

Xavier Musca stated that there has been very strong acceleration of a number of trends that were present before the crisis after the pandemic. These include digitalisation and this issue around climate change. There is very strong demand from civil society to make progress on that. Xavier Musca is very impressed by the strength of the movement. Looking at what happened at shareholders' general assemblies in 2021 shows that concerns on climate have increased quite markedly. For the first time, American firms like BlackRock, Vanguard and others have taken a clear position in favour of more ambitious climate policies for corporates. Climate Action 100+ has also created a coalition of investors that are requesting that companies be more transparent around their climate policies and asking for ambition.

The aforementioned has created an environment in which investors and banks have to answer to this social demand. This message is coming not only from society, but also from supervisors. By 2023, it will be mandatory to disclose environmental, social, and governance (ESG) risk. It is foreseen that it will soon be mandatory to incorporate this ESG risk in the assessment of risk under pillar 2, and maybe later on under pillar 1. That is a very strong and impressive movement.

The real issue is what this means for European finance. It is simultaneously an opportunity and a risk. The opportunity is the fact that Europe is leading the way, and very well placed. The major countries have all issued green bonds in Europe; the last one was Spain at the beginning of the week. The European Commission is planning to issue its first green bond in early October 2021. Some 56% of ESG bonds in the world are issued by Europeans and 70% of the investors in ESG related funds are Europeans. Europe is advancing; it has to keep doing so.

Nevertheless, Xavier Musca is concerned by a variety of issues. The first is the question of data. BlackRock has recently been very eloquent on the need for banks to have the appropriate data in order to assess the risk they are confronted with. Crédit Agricole is not there yet. It knows that it will only be able to get this kind of information through the Corporate Sustainability Reporting Directive (CSRD) so it will wait for the European Commission on this issue. The risk is that banks and investors could be accused of greenwashing, around which issues have been raised recently. It is necessary to engage in the movement, but also to be cautious.

Xavier Musca's main concern is on another level. There is a political impetus towards green finance, but there is little political guidance. The private sector and the banks might be pushed towards acting as subject to government in order to pave the way for a green economy. However, many matters are still unclear and are in the hands of governments.

Xavier Musca asked what the precise European energy mix is. The taxonomy published by the European Commission is a really detailed document, but it is silent on the key issue of the future role of gas and nuclear energy. This silence reflects the fact that there is no agreement on the European energy policy. Xavier Musca does not wholly understand how it is possible to have a transition in this environment without having a deeper political agreement on the energy policy. One key issue is the fact that no one knows yet the central energy scenario against which they are supposed to base their actions and make their commitments.

Finally, investment opportunities are necessary. There is another problem here in that 90% of investment today are not green, according to the taxonomy. Crédit Agricole is supposed to finance investments, but it lacks a real commitment from the other actors to grow in the direction of climate change transition. That is a major difficulty. Xavier Musca is very positive about the movement, but more decisive actions will have to be taken at a political level in order to be successful and for financiers to be able to serve that positive objective.

David Wright

David Wright asked if more political guidance was necessary, particularly on the major types of issues that Xavier Musca raised. He also asked if this meant more granularity in the taxonomy itself or an even more detailed eventual document. David Wright also asked if Xavier Musca worried about the prevalent theme in Ljubljana that the likelihood of global convergence on standards was not very high.

Xavier Musca

Xavier Musca stated that one of his personal worries was corporates and banks needing to determine their financing policy according to rules that are not clear at a European level. They do not yet know if the nature and content of disclosure will be determined by EU democratic leaders or by a constellation of people (funds, investors, NGOs) who have their merits but do not represent political legitimacy. The only way to avoid this uncertainty, is having clearer EU regulation and a convergence of standards at international level.

The only way to avoid this risk is for Europe to be clearer on the big choices. Xavier Musca is not sure that more detail is necessary. Xavier Musca asked what energy is considered legitimate to use in the future and what the path to transition are. There will not be an immediate transition from a brown economy to a green one. It will be necessary to accept that some progress will involve using gas, nuclear or other energies. The way to determine this path is absolutely essential; it will create a consensus among bankers, investors and public authorities that will make the transition as smooth as possible. Otherwise, there could be a very erratic movement and people other than Europeans could tell Europeans what to do in the future. Europeans do not want that future.

David Wright

David Wright stated that Eurofi looks forward to seeing Xavier Musca in Paris. He thanked Xavier Musca and closed the session.