Q&A

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Finding the right balance: stability, simplification and strategic diversity

Which elements of the Commission's banking reform agenda do you think will deliver the greatest competitiveness gains for EU banks?

Our mission at the Central Bank of Ireland is to serve the public interest by maintaining monetary and financial stability, while ensuring that the financial system operates in the best interests of consumers and the wider economy.

So when I think of your question what I am focused on is not necessarily competitiveness gains for EU banks themselves, but rather ultimately how we can ensure that the European banking sector is helping make our economy more productive and is positioned to deliver long term sustainable economic growth for our citizens.

As such, any banking reform needs to seek to preserve resilience and financial stability, a precondition for stable growth. And then our efforts should be focused on how we can reduce fragmentation, increase integration and deliver simplification in a way that reinforces rather than undermines that objective, while ensuring regulation is not an undue burden, or unduly complex.

Completing the Banking Union, developing and deepening the Savings and Investments Union, and ensuring our regulatory framework is effective and efficient is central to those aims.

While we may come into this with different perspectives, we need to remain focused on the benefits of resilient and well-functioning markets and a strong and integrated European banking system will have, in particular for long run economic growth and living standards for all jurisdictions.

How can the cumulative impact of microprudential, macroprudential and resolution requirements in the EU be simplified while maintaining financial resilience? Who should be responsible for maintaining a holistic view of the overall prudential framework in the EU?

This is a key question and was part of the principles that underpinned the recommendations from the Governing Council's High-Level Task Force on Simplification.

We are not merely seeking to simplify the impact of these requirements but rather as with all policy-making we are trying to find the right balance. The balance between consistency and flexibility; between harmonisation and necessary national discretion; and between reducing complexity while maintaining risk-sensitivity.

Getting that balance right is essential to making sure we simplify the capital framework in a way that continues to deliver on its important objectives, which includes a safe and sound banking sector delivering its important function in both good times and bad.

And so, as we rightly seek to simplify the different instruments and elements of the capital stack, it is important we do so in a way that brings clarity and introduces common methodologies, but without constraining the different authorities from being able to respond to risks and deliver on their respective mandates.

As you point out, we also need to get the balance right not just in developing but also in implementing the framework. And for me that also rests on balancing coordination and cooperation with institutional independence. Which as I said, means ensuring the different authorities can do their jobs effectively, while recognising the clear merit in a taking holistic view, which could include a qualitative assessment of the adequacy and appropriateness of the overall level of capital requirements in the EU.

As an integrated central bank and regulator, we have good experience in taking such a holistic view. And from a European perspective, in line with the HLTF report, I believe enhancing the Macroprudential Forum is the best way to deliver such a holistic view, while respecting and maintaining necessary policy independence of the different authorities, be they national or European.

How should Europe balance the need to reduce dependencies on non-European providers in retail payments with the benefits that global schemes and platforms bring to consumers and merchants? What role is the digital euro expected to play in this respect?

This is a great question, and at the heart of what I think is Europe's challenge in terms of balancing openness with autonomy. As I have said before, Europe's strength has always been harnessing the strength of its own market while being open to others' and this is something we should not forget as we rightly seek to enhance our autonomy.

Resilience in the modern era is unlikely to be found through autarky but rather should be maintained through continuing to embrace both openness and strategic diversity.

And so I would say that our aim should be not to become more closed but to respond to fragmentation through efforts to diversify away any dependencies. This can be done through enhancing our autonomy, of course, including by developing our greatest asset – the single market – in goods, services and capital. But it can also be done, by becoming more open, not less. It's why I think we should focus on both strengthening Europe's economic infrastructure and also working with like-minded international partners to develop a new set of multilateral trading rules that deliver certainty and stability.

In terms of retail payments, balancing openness with strategic diversity, is precisely what I see as one of the roles of a digital euro. Aside from ensuring public money remains available in an increasingly digital world, the Digital Euro increases diversity and choice for our economy and our citizens. And in doing so it makes European payments both better for consumers and more resilient for our system.