



Speech by Vice-President Dombrovskis in Valletta, at Eurofi: "Economic and financial perspectives in the world economy and the EU"

Valletta, 6 April 2017

I am happy to be back at Eurofi at a time when the economic situation in Europe is improving. For the first time in almost a decade, the economies of all EU Member States are expected to grow this year and next.

Real GDP in the euro area has grown for 15 consecutive quarters. Employment is growing at a robust pace. Unemployment continues to fall, although it remains above pre-crisis levels. Private consumption is still the engine of the recovery. Investment growth continues even if it remains subdued.

In its latest forecast, the Commission expects GDP in the EU to grow by 1.8% both in 2017 and 2018. This tends to prove that our economic policy mix – investment, structural reforms and responsible fiscal policies – is working. It is important to stay the course.

However, this positive outlook remains surrounded by uncertainty. Progress is uneven across EU countries. We still see high levels of public and private debt. Many Europeans do not yet feel the economic recovery in their pockets, and perceive increased inequalities in our societies. And Europe is facing new geopolitical challenges, from migration to conflicts and instability in our neighbourhood. For the first-time a Member State is leaving the EU.

These challenges invite a broader reflection, and President Juncker has launched this with the White Paper on the Future of the EU.

But there are a number of areas in the financial sector where we can act to reduce uncertainty and strengthen the recovery:

- first, we need to tackle remaining vulnerabilities in our financial sector, and non-performing loans are a case in point;
- second, looking at the future, accelerating Capital Markets Union will unlock additional financing for growth;
- and third, we need to develop our regulatory and supervisory framework to address new challenges.

Let me develop these three points.

First: non-performing loans.

A broad consensus has emerged that high ratios of NPLs in several member States are weighing on the performance and viability of the EU banking sector. This has negative implications for economic growth and financial stability.

Based on historical experience and current trends, if we do not accelerate the NPL clean-up, it would take another 10 years to clear the total current NPL stock. If however we were to tackle NPLs, the capital relief could support lending by up to EUR 500 bn over the next years, in particular in the Member States which need it most.

Within the EU, the level and structure of NPLs differ significantly across national banking sectors. Furthermore, most of the policy instruments to address NPL problems are within the competence of Member States. This suggests that Member States remain primarily responsible for addressing NPL problems.

However, there is a clear EU dimension: weak growth in some Member States due to high NPLs affects economic growth elsewhere, and investors often perceive the value and soundness of EU banks more generally and as a function of weak balance sheets of just some banks.

These spill-over effects suggest that national authorities and European institutions should join forces by designing an EU strategy which would support Member States in tackling NPLs. There is no silver bullet against this problem. We need a combination of measures. Solutions include reformed insolvency frameworks, stronger judicial capacity, and measures to foster larger and more efficient secondary markets for NPLs, including the possibility to set up national asset management companies based on a common blueprint.

We are not starting from scratch, but we need to accelerate and join up efforts.

I hope that at tomorrow's ECOFIN we will see broad recognition that there is an EU dimension to NPLs, and broad support to agree on a common EU strategy with concrete deliverables.

The Commission is already actively contributing to a number of these efforts. We support reforms through the European Semester and the Structural Reform Support Service. We are helping Member States to design NPL measures within the EU state aid and resolution framework. And we are considering further EU initiatives to support legal reforms and secondary NPL markets.

This brings me to my second point: accelerating Capital Markets Union.

According to some estimates, the development of EU capital markets could unlock € 2 trillion of assets to invest in the EU economy and could lead to more than € 50 billion a year in additional financing for companies.

Building capital markets is a long-term project. We have to confront new challenges. Since last week, we have it confirmed black on white that Europe's largest financial centre will leave the single market. This challenge should focus our minds. I see that there is a growing sense of urgency for developing a Capital Markets Union amongst the 27 remaining Member States.

We have made a good start: the Commission has delivered on 16 out of the 37 measures of the CMU Action Plan. And we have high hopes that the European Parliament and the Council will soon deliver on their side, in particular on securitisation and venture capital.

It is now time to build on this and accelerate CMU. Our consultation which has just closed is showing strong support for the objective of a stronger capital markets system. This will help us launch a CMU mid-term review in the summer.

We will stay firmly focussed on the core policy themes of the CMU action plan: improving access to risk finance for SMEs; enabling institutional investors to invest in longer-term assets such as infrastructure and energy transition; more effective and rewarding retail investor engagement with capital markets; sustainable and green finance; removing remaining barriers to cross-border investment.

However, in the second phase of the project, we will refresh our strategy to make sure we deliver on our objectives, and establish Capital Markets Union by 2019.

And we need to ensure that we have the right supervisory framework for our integrated financial markets, which is my third point.

Since their establishment, the European Supervisory Authorities have contributed significantly to a robust financial framework for the Single Market, also underpinning Banking Union. However further progress in supervisory convergence is needed to promote the CMU for all EU Member States, improve integration within the single market and safeguard financial stability.

While the ESAs have started to shift attention and resources to analyse risks to consumers and investors and undertake more work to increase supervisory convergence, work in this area must be accelerated. The ESAs also have a major role to play to capture the growing benefits of technological developments such as FinTech, whilst addressing any possible risks arising in this context.

We need to reflect on what possible changes to the current legal framework are needed to enable the ESAs to fully deliver on their mandates. In order to gather evidence, the Commission has recently launched a public consultation focusing on a number of issues related to the ESAs' tasks and powers; governance; supervisory architecture; and funding.

Our aim is to identify areas where the effectiveness and efficiency of the ESAs can be strengthened and improved.

An area in which Brexit will profoundly change the EU's financial landscape is central clearing of derivatives. Today the United Kingdom accounts for a significant amount of Europe's clearing activities.

So it is all the more important to consider how Europe's framework for the clearing market will develop. Let me mention four points on this.

First of all, our recent consultations showed that with EMIR we have a framework which is considered to have brought transparency and mitigated systemic risks in derivative markets, and which is here to stay.

Second, we will continue our efforts to make the system more efficient and reduce disproportionate costs and burden. We have received many sensible suggestions from stakeholders on: how to better calibrate the application of some requirements to specific actors, notably to non-financial counterparties, pension funds and small financial counterparties. We will come out with legislative proposals on our review very soon.

Third, Europe's clearing markets should continue to be part of integrated international markets. In this

and in other areas we are committed to maintaining and developing strong international standards, and we expect the same from our international partners. Based on these standards, the principle of equivalence is key to EMIR. We have only recently extended equivalence to a number of jurisdictions. We have recalled the key features of our equivalence system in a Staff Working Document. And we are open to further develop equivalence where necessary.

Fourth, and finally, – not least due to the success of EMIR – ever larger volumes of derivatives are cleared centrally in a small number of CCPs which are of systemic relevance across the EU. As also set out in our consultation in the ESAs review, we will therefore need to consider how to continue developing the EU's supervisory and resolution system.

A specific issue in this context is how to deal with the fact that a very significant proportion of clearing activities in certain market segments currently occurs in the UK. That activity would in future therefore be outside the EMIR framework. This will surely be a matter of important reflection in the coming months and years.

Ladies and gentlemen,

There is a lot of work ahead of us. But let us not detract from one fundamental truth: For financial markets in Europe, and even more so in the future Europe of 27 Member States, integration is an existential question. Only together we have the depth and liquidity for markets to function efficiently, the scope for innovative finance to develop and scale up, and the strength to finance our economies.

I am looking forward to continue working with you to capitalise on the strength of the EU's internal market for financial services, in support of Europe's economy and its citizens.

Thanks for your attention

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