Vice-President Dombrovskis

Ambrosetti forum speech – Saturday 7 April

“European Banking and Capital Markets Union”

Excellencies,

Ladies and Gentlemen,

Many thanks for the invitation to speak to you today.

Today, our topic is Banking Union and Capital Markets Union. They are both are about deeper integration of Europe’s financial markets. And financial integration is essential for growth and for strengthening the resilience of the EU economy – in particular the euro area economy – so to strengthen resilience against shocks.

Currently, the European economy is growing at its fastest pace in a decade. So, both for the EU and euro area we saw 2.4% growth last year, and we expect 2.3% growth this year.

This is solid economic performance and we should also recognize the important role of the economic and financial reforms that we are carrying out to bring this stability and renewed market confidence. We should not become complacent. There are still many challenges, both internal and external. And we should use current growth first and foremost as an opportunity to take the necessary decisions to complete the work and secure our future prosperity.

Today I would like to give you an overview over where we are with two flagship policies, the Banking Union and Capital Markets Union. What needs to be done to get them all to the finishing line and still within this European political cycle, before European elections next year. This is currently at the top of my agenda.

Let me start with the Banking Union. As of today, two pillars of the Banking Union are up and running: We have the Single Resolution Mechanism, which oversees 118 significant banks, 14 of which are in Italy. And we have the Single Resolution Mechanism, to resolve banks in an orderly manner in case of necessity. We have already talked in more detail on this. And we also have common banking regulation - a single rulebook. So a lot has already been achieved. But the Banking Union is still incomplete. We need more to manage a banking crisis with the least possible impact on financial stability and taxpayers.

This was recognised in the Roadmap agreed by Finance Ministers in 2016 to complete the Banking Union, and we are working on that basis.

Our approach is clear, and we are sticking to this: Risk sharing and risk reduction must go hand in hand.

On risk reduction, we have come a long way. Across the EU, the capital and liquidity of banks has improved, and we have made progress on governance, supervision, and resolvability.

We should now finalise negotiations on the November 2016 Bank Reform package, which transposes internationally agreed prudential requirements into EU law. European banks need clarity about the leverage ratio, the net stable funding ratio, and the future framework for bail-in buffers.

Meanwhile, we should stay focused on non-performing loans, or NPLs. In three years, the share of NPLs to total loans in the EU has been reduced significantly, from 6.7% to 4.4% - these data are from the third quarter in 2017 and this positive trend is visible in almost all EU countries.

But still the levels of NPLs are unequally distributed. For example, in Italy, the NPLs fell from 16.1% in the third quarter of 2016 to 12.1% in the third quarter of last year – but it is still high. It is still the forth-highest level of the NPLs in the EU. And it must be said that these figures still do not take into account decisions of last year, that were also important for the disposal of NPLs in Italy.

To consolidate this downward trend, we presented in March a package of measures which will help banks reduce current NPLs and prevent their accumulation in the future. Among those measures, it includes a proposal for a prudential backstop, to ensure that banks put aside enough funds to cover losses from newly issued loans in case they turn non-performing. The package also includes a proposal for a directive to help banks deal with NPLs that are already on their balance sheets.

This directive offers an accelerated out-of-court procedure to help banks and other creditors recover collateral pledged by companies as part of a loan, based on the example of the Patto Marciano clause here in Italy.

Creditors and debtors would have to agree in advance on such private enforcement of collateral.

The directive would also further develop secondary markets, to help banks sell and transfer NPLs to specialised market participants. And it must be said that with this NPLs package, we go beyond the risk-reduction measures originally planned in the Council's Banking Union roadmap.

Now we also need to move forward with discussions on the missing elements of the Banking Union, namely a common backstop to the Single Resolution Fund, and a European Deposit Insurance Scheme, or EDIS.

Backstopping the Single Resolution Fund is needed to underpin financial stability and allow the credible application of the resolution framework. The backstop would be fiscally neutral over the medium term, as all disbursements by the Fund would be recouped from the banking sector.

There is a largely shared view that the European Stability Mechanism would be well placed to provide such a backstop. This is also in line with what the Commission has foreseen in December the context of our proposal to transform the European Stability Mechanism into a European Monetary Fund anchored in Union law. We hope that there will be an agreement on the main elements on the backstop in the next few months.

A European Deposit Insurance Scheme is also needed to make sure that depositors enjoy the same level of protection, regardless of where their account is in the euro area. This would reduce the risks of bank runs, and also give more time to conduct an orderly resolution of banks when needed. The result would be less use of taxpayer money, and a more stable banking system.

Last autumn, we also presented some ideas how to move towards EDIS in more gradual steps than in our original proposal, and also introduce a link to a verifiable reduction of legacy risks in banks' balance sheets.

EU leaders have commitment to complete the Banking Union. This is also part of our broader agenda to complete the Economic and Monetary Union, which is entering a critical phase. So compromises need to be found as soon as possible, in view of the leaders' meeting in June.

This brings me to the Capital Markets Union, which is also important to complete to the Banking Union.

We see that deeper and more integrated single market for capital would have many advantages:

- to mobilise funding for investments in productivity and growth.
- to give households more better options to invest for their future.
- and to reduce the reliance of our economy on bank financing and improving its shock-absorption capacity.
- Finally, it would also spread risk across private market actors, which is important for building a resilient Economic and Monetary Union.

We have already taken fundamental steps to build CMU. For example, we have made it cheaper and simpler to raise capital on public markets, with our Prospectus Regulation. And we have adopted new rules to promote a safe and deep market for Simple, Transparent and Standardised securitisation. We have made further steps but despite this progress, CMU is far from complete.

Out of 12 legislative proposals tabled so far, nine are still under discussion by the European Parliament and Member States. So we need to accelerate their work to get those proposals behind finish line before the next European elections. And it is all the more urgent because Europe's largest financial centre is about to leave the single market. By the time of Brexit, the conditions for a true single market for capital need to be in place.

To complete the Capital Markets Union we are working on three main directions: the EU Single Market, clear and proportionate rules, and effective supervision. Let me briefly mention some examples from all three.

First, we want consumers and investors to benefit fully from the single market thanks to the EU-wide financial products.

For example, last June we proposed a Pan-European personal pensions product, or PEPP, which would help EU households to prepare for retirement by making the most of their savings and also would help to develop capital markets with the help of those savings.

And just last month, we proposed a new EU license for crowdfunding platforms, which would help them operate across the single market based on a single authorisation.

Second, we want to remove barriers to deeper capital markets through clearer and simpler rules for businesses.

That was a purpose for our call for evidence, and to give one example, with our 2016 proposal on business insolvency, to promote preventive restructuring and give a second chance for viable businesses.

We hope for a quick agreement on this important proposal. Since the beginning of CMU, we have also focused on small and medium enterprises, which are the backbone of the European economy. And by May, we will present a new proposal to provide more proportionate rules for SMEs that wish to list and issue on the SME Growth Market.

This brings me to our third focus: more consistent supervision of EU capital markets, to protect investors and financial stability.

Here, I would mention last year's proposal to review the functioning of the European Supervisory Authorities, EBA, ESMA and EIOPA.

They are doing important work to implement EU legislation and supervise financial markets. So we need to equip them to address new challenges and to better promote supervisory convergence. This is essential also for deeper financial integration across the single market.

Here we stand ready to discuss with the Parliament and Council ideas how to accelerate current negotiations.

Another related work strand is the promotion of Fintech, where last month we presented our Action Plan, which sets out concrete steps for a more innovative and competitive European financial industry. And we are working intensively also on sustainable and green finance, to make sure the financial sector throws its full weight behind the fight against climate change.

Ladies and Gentlemen,

By May of this year, all the CMU proposals that this Commission has announced will be on the table. But the Commission cannot reform capital markets alone. Both private and public actors at national and European level must do their part. As with the Banking Union, time is ripe to move forwards a deal at political level, and we will continue to support this effort.

Deeper financial integration is an investment in the stability of our financial system, our single currency, and the prosperity of all Europeans.

Thank you very much!