BANQUE DE FRANCE

EUROSYSTÈME

FESE Convention – "Europe's future in global capital markets"

Paris, Thursday 22nd June 2017

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Ladies and Gentlemen,

It is a pleasure to be with you today to close this FESE convention. When reflecting on Europe's future in global capital markets, we all agree that the Brexit vote last year has significantly shifted the European landscape. One year on, it is still bad news for all of us, but much worse for the United Kingdom itself, and each day more so. Faced nevertheless with Brexit, we should at least be consistent. And the EU-27 is being so, starting with Mr. Macron and Ms. Merkel: we are hoping for a positive agreement, but there can be no cherry-picking in the single market, and no access without common rules. Furthermore, I'd like to stress two imperatives: first, do not let sources of systemic risks for the EU grow outside the EU; second, speed up the creation of a "Financing Union for Investment and Innovation" to boost productive investment thanks to a better circulation of savings across borders. Let me elaborate on these two imperatives in some more detail.

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1. Do not let sources of systemic risks for the EU grow outside the EU

Let me start with the first imperative. The main issue here is that some financial market infrastructures, which are key for the EU, will soon become off-shore to the EU as a consequence of Brexit. This is particularly problematic when these infrastructures may put the EU's financial stability at risk: some central counterparties (CCPs) for instance can be considered to be "too big to fail" entities, especially since clearing is mandatory. This is a specific concern for the euro, compared to other currencies, as European savings management is almost totally dependent on London-based financial players and market infrastructures. And yet we cannot reasonably expect that these global financial market infrastructures take into account, in their operations and risk management, the financial stability of the euro area, on top of the financial stability of their own jurisdiction.

Therefore, since, regrettably, London will soon be outside the EU, the current setup is no longer adequate. Replicating for clearing activity in the euro area the extraterritorial approach developed by the US authorities cannot be a solution, because of the specific position of the EU capital market vis-à-vis London, and because we know by experience that in times of stress the views of the domestic authorities prevail when interests diverge.

So, what should we do? In my mind, a location policy is the most efficient tool: first, it would make it possible to maintain effective control over the activities denominated in EU currencies; and second, it would foster a better and more balanced clearing market structure, less dependent on “too big to fail entities”, which would enhance global – and not only EU – financial stability. In this regard, I would like to acknowledge the valuable proposals recently made by the European Commission, even if they could be strengthened and streamlined: those CCPs whose activities are "super-systemic" for the EU market should indeed establish themselves in the European Union. A location policy is the only viable mechanism to guarantee that European authorities, and the Eurosystem in particular, can control and manage the risks that CCPs are likely to pose to the financial stability of the European Union. In order to do so, the concept of “substantially systemically important CCPs” should however be clearly defined with objective, rule-based requirements; euro-denominated clearing activities should be located in the European Union when they exceed certain thresholds.

2. Speed up the creation of a “Financing Union for Investment and Innovation”

The second imperative is to speed up the creation of a “Financing Union for Investment and Innovation” at the European level. The need for such a Financing Union stems both from a weakness and an opportunity. The weakness is that the euro area faces persistent financial fragmentation. But the opportunity lies in its abundant resources: savings exceed investment by

EUR 350 billion per year in the euro area, which is more than 3% of GDP. An obvious way to boost growth in the EU is therefore to better steer our abundant savings towards the financing of investment and innovation across borders. We will thereby be able to address the persistent “investment crunch" that followed the financial crisis – the share of investment in GDP remains below its value at the turn of the century, standing at 20% in 2016 compared to 22% in 2000-2005.

The success of this Financing Union lies in the capacity to provide businesses with more equity financing solutions, supporting the scaling-up of SMEs. Europe is lagging far behind in this area: such financing only represents 68% of GDP in the euro area compared with 128% in the United States in the fourth quarter of 2016. Naturally the building blocks of such a Financing Union already exist with the Capital Markets Union, which supports the diversification of private financing; the Juncker Investment Plan, which channels public and private investment into the real economy; and the Banking Union, which tackles the fragmentation issue. These initiatives have to be brought together into the Financing Union in order to go beyond administrative or bureaucratic borders, create synergies, and therefore give new impetus to this agenda. Think for instance of a real European venture capital market to promote equity financing, which is the most effective way to finance innovative businesses at different stages of maturity (seed, venture, and growth).

More specifically, progress towards a Financing Union for Investment and Innovation is needed in three key areas:

- First, completing the Banking Union. This means, as a priority, finalising the Banking Union’s second pillar, namely the single resolution mechanism. Within a strong Banking Union framework, banks in the euro area will thus be able to engage in cross-border consolidations on a sound and safe basis and therefore contribute further to reducing financial fragmentation.
- Second, thoroughly reviewing the incentive schemes for cross-border investments, notably by promoting further convergence of tax and

regulatory regimes. Enhancing the free movement of capital within the EU requires addressing a wide range of legal impediments, including enhancing the predictability of insolvency frameworks, eliminating fiscal biases that penalise equity, and further increasing the transparency and harmonisation of accounting rules for small businesses.

- Third, expanding the supply of financial intermediation services. This can take the form of new pan-European savings products and investment vehicles – more long-term and risk-oriented – or new market initiatives in green bonds, private placement or securitisation for instance. Complementary steps could include creating pan-European venture capital funds and leveraging on the development of FinTechs, while maintaining a high level of consumer protection and efficient conduct of business rules in a digital environment.

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Let me conclude with a general remark. After Brexit and Mr. Trump's election, many expected a euro area crisis. So far, exactly the opposite has happened: European growth is accelerating, at close to the pace of US growth. The French election gave a fresh political impetus to stability and reforms; public support for Europe has significantly increased: up 18 percentage points in France from last year (56% in spring 2017) according to a recent survey by the Pew Research Center; and the same trend can be observed in a number of countries. Most importantly, we in the EU-27 should not devote all our energy to Brexit, at the expense of investing in our own future. In this regard, it is the right time to move up a gear. To boost European growth, financial levers are of the essence, but economic levers play a role too. This is the reason why I often speak of Europe's "growth triangle". In my view, Europe needs to activate three levers: the Financing Union for Investment and Innovation that I have just described, but also implement national structural reforms on the one hand and a better euro area policy mix on the other. National structural reforms are a prerequisite for each country to unleash our collective growth potential. In addition, they would amplify the effects of the Financing Union: such a Union would foster firms' *ability* to invest and national reforms would foster firms' *willingness* to invest. The third lever is a euro area policy-mix based on a better coordination of macroeconomic policies. This requires a collective economic strategy whereby Member States seal a deal: if we combine more structural reforms where they are needed – in France and Italy for instance –, and more fiscal or wage support in countries with room for manoeuvre – for example, Germany and the Netherlands – growth and employment will undoubtedly be stronger everywhere in Europe. If we seize this opportunity, Europe's time will come. Thank you for your attention.