Olli Rehn: Which economic and financial priorities for fostering growth and innovation in the EU?

Opening remarks by Mr Olli Rehn, Governor of the Bank of Finland, at the Eurofi Financial Forum 2019, Helsinki, 11 September 2019.

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Ladies and Gentlemen, Dear Colleagues and Friends,

It is my great pleasure to welcome you to Helsinki and to the Eurofi Financial Forum 2019. Helsinki is a major Nordic financial centre and Finland is an active founding member of the EMU and the Banking Union.

Moreover, central banking has a long history in Finland. Compared to the “youngsters”, like the Fed and the ECB, the Bank of Finland is a “veteran”, having been founded in 1811, which makes us the 4th oldest cental bank in the world. That means, if you don’t count Finland being an organic part of Sweden, which has the oldest central bank in the world, Sveriges Riksbank, founded in 1668.

The Eurofi on its part has been providing a valuable platform for the exchange of ideas and information between the public authorities and the financial industry for two decades. I am confident that over the next few days the Eurofi Helsinki Forum will give us plenty of food for thought on topical issues in European economic and financial policy.

The theme of the morning sessions – the economic and financial priorities for fostering growth and innovation in the EU – could not be more pertinent. Apart from managing immigration better and reinforcing external and internal security, our key policy challenge in the coming years will be no less than boosting an economic and industrial revival of Europe.

Let me share some thoughts with you on the priorities to this effect.

First, on macroeconomic policies. As we are on the ECB’s silent period, I will not comment on – or even touch – monetary policy. I just note that the euro area economy has been on a path of recovery and growth since 2013. But prolonged pervasive uncertainty stemming from the escalating trade war and related to vulnerabilities in the emerging market economies, as well as ongoing geopolitical tensions, have left their mark on the economic sentiment.

Europe’s labour markets have been resilient, so far, and that is supporting domestic demand. However, the falling external demand is taking its toll, and having its effect also on the labour market.

The Bank of Finland and other central banks in the Eurosystem are ready to do what is needed to reach our price stability target and support sustained growth and job creation. But monetary policy cannot be the only active player in the field. Other policy areas should contribute more decisively to raising the long-term growth potential and reducing vulnerabilities.

Tommaso Padoa-Schioppa warned monetary policy makers not to confuse the independence of the central bank with isolation. As he put it, “strong currency requires a strong economy and a strong polity, not only a strong and credible central bank”.[1] There is much room for enhancing coordination, each policy maker working within the perimeter of its mandate. With limited policy spaces this is ever more important.

Sound fiscal and economic policies at the national level are the first line of defence to deal with economic shocks. Implementation of structural reforms needs to be substantially stepped up to increase resilience, boost productivity, and reduce unemployment in a lasting way. Automatic stabilisers should play their full role. All countries can reinforce their efforts to achieve a more growth-friendly composition of public finances.

Why is that important? Because productivity growth is critical to rising living standards. Sustainable growth requires more investment, research and innovation. To accomplish this, sufficient public sector contribution is necessary. We need to be able to secure investment in public infrastructure, including digital infrastructure, not least in countries that are lagging behind in 5G, or even more regrettably, sometimes even in 4G.

A large and integrated single market is the cornerstone of the EU, but the member states also benefit from open global markets. At the same time, the transformation brought about by globalisation and the digital revolution has resulted in winners and losers. This, in turn, has helped to promote populist policies promising easy answers to difficult questions.

Protectionism, however, is not an answer. Isolation is not possible without great losses in citizens' living standards. We should continue to work for a Europe that pursues growth also from beyond its own borders through free-trade agreements; for a Europe that combines a strong entrepreneurial drive and a stability culture; and for a Europe that guarantees civil rights and social justice in the digital age.

These are concrete goals for sustainable growth and job creation – and fundamentally for human development – that really matter to the citizens in Europe, which should always be our key yardstick.

Next, let me turn to key policy priorities in the financial sector.

A well-functioning financial system is fundamental for growth. It is a well-known and regrettable fact that we are still missing a genuine pan-European financial market. It is a fact that the post-crisis trend of financial reintegration has been weak, which is partly explained by the initially slow recovery of Europe after the crisis.

Yet, the key underlying factor is that there are still too many shortcomings in the EMU financial architecture. While we have made good progress in reinforcing economic governance and strengthening the regulatory framework, there still remain too many obstacles for further integration.

That's why the completion of the Banking Union and enhanced efforts towards the Capital Markets Union are critical building blocks of both the integrated single market and a more resilient monetary union.

With regard to the Banking Union, we need to implement the remaining measures to ensure an effective and credible resolution framework, set up the common deposit guarantee scheme, and address remaining regulatory obstacles that unnecessarily penalise cross-border integration. To accomplish this, we need to ensure that greater risk-reduction will go hand in hand with greater risk-sharing.

The Capital Markets Union aims to break down barriers that block cross-border investments. Although we have had successful EU initiatives to boost investment – with the Juncker Plan having triggered some EUR 400 billion of investments – we need significantly more private financial risk sharing to support innovation and efficient allocation of capital.

There has been good progress in taking CMU-related EU legislation forward, but major further steps are still needed to create a well-functioning CMU. Many initiatives will be discussed during the Forum, including a more harmonised insolvency framework and enhanced transparency of company financial data that is critical for investment decisions.

I would like to highlight one particular issue – the need for a European safe asset. We have frequently underlined this need within the Eurosystem. I am not taking any stand on any specific, concrete proposal to this effect. But if well-designed, a European safe asset would contribute to both financial integration and financial stability. Namely, the CMU would genuinely benefit from a common safe asset against which newly issued securities can be priced, including in the green bond markets. It would also offer financial stability benefits by lowering risks on banks' balance sheets.

The non-existence of a European safe asset also contributes to an excessively unipolar global financial system and the vulnerabilities it creates. It would not be about challenging the dollar – it would be about building a more stable global financial system. It would also be about providing an additional channel for foreign investors to invest in Europe, including into sustainable finance and the green bond markets.

There are major challenges involved in taking the CMU forward. For that, we need a clear vision and persistence. We need to revitalise the action plan. With this in mind, in my view it would be useful to reassess the narrative attached to the CMU. A new concept – "Growth and Investment Union" for example – might put a more positive drive on the project.

Dear colleagues,

The current global headwinds underline the importance of boosting the economic revival of Europe through structural reforms, public and private investment in research and innovation, and a revitalisation of the Single Market. We need to complete the EMU financial architecture to enhance capital allocation and improve private risk sharing. Only in this way can we reap full benefits of the Single Market.

And, crucially, Europe's economic revival needs to be combined with the greatest challenge of our generation: tackling and mitigating climate change. It calls for a consistent strategy from the EU on how to pursue economic and ecological transformation of our societies and enterprises. In this challenging task, the financial system will need to play an important role in managing risks and mobilising capital for green investments.

Let me wish you most productive discussions and enjoyable days in Helsinki! – Many thanks for your attention.

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[1] See Padoa-Schioppa (2004)