Future of Europe: Commission brings together religious leaders to discuss a value-based and effective Union

This 13th annual high-level meeting took place in the context of the ongoing debate on the Future of Europe, launched by President Juncker with the Commission's White Paper on 1 March.

First Vice-President Frans **Timmermans** said: *"The future of Europe is in the hands of its citizens. Shaping that future is our collective responsibility, our shared values our compass. The regular dialogue with confessional organisations, like the one with non-confessional organisations, allows us to address the issue of our common future from different perspectives. It is through inclusive dialogue that we can chart the best course for our common future."*

Today's high-level meeting, part of the regular dialogue with churches, religious communities, philosophical and non-confessional organisations foreseen by Article 17 of the Lisbon Treaty, provided an occasion to hold in-depth discussions on questions addressing issues of values and governance. The current discussion on the future of Europe is about making Europe more united, stronger and more democratic. The participants also looked at the human dimension of Europe, in particular its social and environmental dimensions and how Europe can be built on principles of solidarity, social justice and sustainability. The leaders present were invited to work with the Commission throughout the reflection process on the future of Europe. It was agreed that the dialogue on the issues discussed today should continue.

Background

High-level meetings and discussions are held regularly between the European Commission and churches and religious associations and communities as well as philosophical and non-confessional organisations.

Today's high-level meeting with religious leaders is the 13th annual high-level meeting organised by the Commission. Since 2009, the dialogue with churches, religious communities, philosophical and non-confessional organisations is enshrined in the Lisbon Treaty (Art 17 TFEU). The dialogue is under the responsibility of First Vice-President Timmermans. The Commission held its annual meeting with non-confessional organisations on 19 June 2017 on the same topic of the Future of Europe (see the press release).

In March, the Commission presented the White Paper launching a reflection process on the Future of Europe. The Commission committed then to carrying out dialogues across European cities and regions with different groups to encourage the debate on the outlook for Europe in 2025. In his 2017 State of the Union address, President Juncker further detailed his vision of the future of Europe, underlining that Europe is first of all a Union of values.

President Juncker also set out a Roadmap for a more united, stronger and more democratic union.

For More Information

[State of the Union 2017]

[White Paper on the Future of Europe and the way forward]

[European Commission' dialogue with churches, religious communities and philosophical and non-confessional organisations]

List of Participants

- Imam Seyran ATEŞ, Founder of the Ibn Rushd-Goethe mosque in Berlin
- Metropolitan CLEOPAS of Sweden and all Scandinavia, Ecumenical Patriarchate of Constantinople
- Elder Massimo DE FEO, Europe area Presidency of the Church of Jesus Christ of the Latter-Day Saints
- Mr Ron EICHHORN, President of the European Buddhist Union
- Metropolitan EMMANUEL of France, Vice-President of the Conference of European Churches, Ecumenical Patriarchate of Constantinople
- Rabbi Albert GUIGUI, Chief Rabbi of Brussels
- Bishop Jean-Claude HOLLERICH, Archbishop of Luxembourg
- Imam Tareq OUBROU, Grand Imam of Bordeaux
- Ms Irmgard SCHWAETZER, President of the Synod of the Evangelic Church of Germany (EKD)
- Bishop Noel TREANOR, Bishop of Down and Connor
- Archbishop Urmas VIILMA, Evangelical Lutheran Church of Estonia

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Mario Draghi: European banking supervision three years on

Welcome remarks by Mario Draghi, President of the ECB, at the second ECB Forum on Banking Supervision, Frankfurt am Main, 7 November 2017

It is my pleasure to welcome you to this second ECB Forum on Banking Supervision.

When I spoke at the Forum in 2015, European banking supervision had only been in operation for one year. Much had been achieved in that time – not least the comprehensive assessment of bank balance sheets – but in many ways the single supervisor was still untested.

We saw European banking supervision as having two main objectives: to reduce *bank-specific risks* through tough and forward-looking supervision; and to reduce *country-specific risks* in the banking sector by applying those same high standards across the whole of the euro area.

Now, three years on, we can begin to take stock of what has been accomplished.

What is clear is that European supervision has been instrumental in building a stronger and more resilient banking sector. The country in which a bank is located has also become a less important factor in how its credit risk is perceived.

These two achievements have been a crucial complement for our monetary policy, too, since banks are the main channel of financial intermediation in the euro area.

A well-integrated financial sector with sound banks has helped transmit our policy impulses more evenly across the euro area. And it has allowed us to pursue an accommodative policy for as long as necessary, without building up significant financial stability risks.

Progress with European banking supervision

There is no doubt that building European supervision has been a remarkable undertaking. Today we have 900 supervisory staff working at the ECB who, together with 4,700 national supervisors, directly oversee around €22 trillion in assets, representing around 200% of euro area GDP.

But more important than its scale have been the changes the single supervisor has prompted in the conduct of supervision. It has broken with the past in a single, but fundamental way.

That is: it has brought about a more uniform approach in how banks are supervised, leading to a more resilient banking sector overall. The key catalyst for this change – alongside the new EU regulations – has been the harmonisation of the Supervisory Review and Evaluation Process (SREP).

This harmonisation has allowed supervisors to converge towards common benchmarks in how they assess risks; and it has helped them to be consistent in how their risk assessments are then linked to supervisory capital add-ons and other measures.

To illustrate the difference this has made, in 2014 the correlation between SREP scores and Pillar 2 capital requirements was 26% in the euro area. In 2016, it was 76%.

European supervision has therefore resulted in a substantial strengthening of shock-absorbing capacity within the sector. The total capital ratio of banks supervised by the ECB has increased by more than 170 basis points since early 2015. The quality of capital has gone up as well: the high-loss absorbing component – CET1 – now makes up the largest share of total capital of euro area banks.

Specific weaknesses are also now being addressed in their entirety across the euro area. Currently the most important issue here is tackling non-performing loans (NPLs).

We all know the damage that persistently high levels of NPLs can do to banks' health and credit growth. Internal ECB analysis shows that, over recent years, banks with high stocks of NPLs have consistently lent less than banks with better credit quality, therefore providing less support to firms and households.

And though NPL levels have been coming down for significant institutions – from around 7.5% in early 2015 to 5.5% now – the problem is not yet solved. Many banks still lack the ability to absorb large losses, as their ratio of bad loans to capital and provisions remains high.

We therefore need a joint effort by banks, supervisors, regulators and national authorities to address this issue in an orderly manner, first and foremost by creating an environment where NPLs can be effectively managed and efficiently disposed of.

Importantly, the development of European supervision has not only reduced the risk of individual banks failing. It has also – as we hoped – had some success in reducing the importance of location in perceptions of bank risk, because single, rigorous supervision is an essential precondition for the other pillars of the banking union that more decisively sever the bank-sovereign nexus.

Indeed, looking at the largest banks for which we have data available, the correlation between bank credit default swaps and those of sovereigns is now considerably weaker than at the height of the euro area crisis.

Still, there is no room for complacency, since these improvements are likely to have been driven, in part, by the improved economic situation. It is therefore crucial that further reforms to de-link banks from sovereigns do not lose steam, notably completing the other pillars of banking union.

The benefits of strong supervision for monetary policy

All these supervisory efforts have not only produced a more robust banking sector; they have also provided crucial support for our monetary policy since we entered a new easing phase in mid-2014. This support has come from two main sources.

First, stronger supervision has improved the transmission of our policy impulses through banks.

There is now plenty of evidence to suggest that the level of bank capital is a key variable in how banks lend during downturns, and hence also for monetary policy transmission.[1] It is therefore no surprise that the improved health of the banking sector, coupled with our credit easing measures, has coincided with a marked improvement in the transmission process.

Previous asymmetries in bank lending rates across the euro area have now largely been reversed, the cost of bank borrowing has stabilised at record lows everywhere in the euro area, and so has its dispersion across countries. We can now say that the pass-through from our past policy measures to lending rates is nearing completion.

The decline in lending rates has been particularly noticeable for small loans in vulnerable countries, which are a proxy for the financing conditions faced by SMEs. SMEs are of course highly dependent on well-functioning banks as their options are limited when it comes to accessing market finance. For these small loans, the spread between vulnerable and more resilient countries has now narrowed to a record low of 5 basis points.

This more even credit pricing across countries and firms has, in turn, been crucial to the broadening of the economic and employment recovery, not least because SMEs represent 60% of euro area value added and employ 70% of the labour force.

The second way in which stronger supervision has supported our monetary policy is by helping contain any financial stability risks that may emerge during a long period of low rates.

One channel through which such risks can appear is search-for-yield effects: low rates can, in principle, induce banks into making lower-quality loans, leading to higher loan losses. But with a strong supervisor ensuring well-capitalised banks, the quality of lending tends to be higher.

This is confirmed by a major study looking at loan-level data in Spain, which finds that, when overnight rates fall, highly capitalised banks grant fewer loan applications to risky firms than lowly capitalised banks, and have fewer loan defaults.[2]

With a more resilient banking sector in the euro area, we have seen this more positive picture develop. Credit risk exposures in banks' loan books have declined as monetary policy has eased. Default rates have fallen, and forward-looking measures also suggest a decline in credit risk.

This has of course been driven by improvements in credit quality as the macroeconomic situation has improved. But it may also reflect the role of higher capital in resolving agency problems: the more a bank is capitalised, the more its owners stand to lose if borrowers default and cause losses. So the more equity a bank holds, the greater its incentive to make higher-quality loans.

Other financial stability issues associated with low rates have also not materialised, thanks in part to the stronger supervisory framework.

At euro area level, we currently see no signs of credit-fuelled housing bubbles, which are at the root of most serious financial crises. Since 2016, bank lending for house purchases has risen, on average, by 2.9% per year – well below the growth rates of up to 12% recorded in the run-up to the crisis. Some local pockets of risk have emerged, but both supervisors and macroprudential authorities are actively taking steps to counter them.

We have also seen little evidence that negative interest rates are undermining bank profitability, an issue which has caused a lot of concern. This would pose a financial stability risk to the extent that it hinders banks from building up capital through retained earnings and makes raising market equity too expensive. It would also affect monetary transmission for the same reasons.

In fact, net interest income has remained quite stable over the past two years, even as overnight rates have drifted lower. And thanks to gains in other income components, banks' return on equity has been rising and is converging towards their cost of equity. For the banks under ECB supervision, return on equity has risen from 4.4% at the end of 2015 to 7.1% at the start of this year.

This neutral impact of negative rates is largely due to the general equilibrium effects of monetary policy that we have explained many times: when policy is accommodative, the main components of profitability largely offset each other, since the positive impact of a stronger economy on loan-loss provisions largely cancels out any negative effect on net interest income.[3]

For some banks, however, these negative effects may be larger than for others. This is where strong supervision is again crucial. As part of its SREP, ECB Banking Supervision carries out detailed, comparative assessments of banks' business models, which feed into the ongoing supervisory dialogue between the supervisory teams and banks.

This process is not prescriptive, but it helps bring to light important issues such as the sustainability of banks' business models in a low rate environment, and their operating costs in comparison with their peers, which in some countries are a contributing factor to low profitability.

Conclusion

Let me conclude.

We are now three years into the life of European banking supervision, and the track record so far is encouraging. Though the single supervisor is still a young and developing institution, it has in many ways lived up to the high expectations that accompanied its founding.

Rigorous and uniform supervision has led to higher levels of capital and a more resilient sector overall. The credit risk of banks is now less determined by the credit risk of their country of establishment.

Healthier banks have, in turn, helped transmit the ECB's accommodative monetary policy more evenly across the euro area, leading to a stronger and broader recovery. And the new supervisory framework has helped mitigate any financial stability risks that might have arisen as a result.

In short, European supervision and European monetary policy have proven to complement each other well. It is an approach which confirms the synergies that can be reaped when the right policies are combined at euro area level.

Macroeconomic dialogue with the social partners, 6 November 2017

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The Council presidency, the European Central Bank and the European Commission met with European social partners on 6 November 2017 to discuss the **macroeconomic outlook** and the further development of the EU’s **economic and monetary union** (EMU).

In his opening statement, **Toomas Tõniste, minister for finance of Estonia and president of the Council** said: “Today’s discussion with the social partners was constructive and fruitful. The dialogue is valuable, in particular in the light of the current economic outlook which is positive but at the same time poses challenges, such as continued high levels of youth unemployment. Our continued cooperation is necessary to reach our common goal: a strong European financial architecture that fosters economic growth.”

Commission vice-president Valdis Dombrovskis said: “Economic activity in the EU and the euro area is surpassing expectations. But we still have persistent economic and social divergences and the recovery is not felt equally by all European citizens. We are working towards sustainable and inclusive growth and to restart real convergence, where the social partners have an important role to play.”

European Trade Union Confederation (ETUC) **general secretary Luca Visentini** commented: “We welcome tentative improvements in employment rates but there is still nevertheless not enough work to go around, as shown by the significant slack in labour markets. Strong measures are still needed to boost a recovery which is rich in terms of quality job creation. The role of the macroeconomic dialogue is to consider the recent positive developments in the EU/EMU economic situation, but at the same time to take into account the lack of improvement in terms of full-time equivalent employment rates and labour market participation. More equality and social rebalancing have to be included in the 'Deepening the EMU' package to be published in December, and new tools for investment and social justice have to be foreseen in the European Semester and economic governance."

Speaking on behalf of the Confederation of European Business, **BusinessEurope, director general Markus J. Beyrer** commented: "Businesses across the EU are benefiting from a strengthening EU economy. Our latest forecast for EU growth of 2.3% in 2017 is 0.4 percentage points higher than we expected in the spring, with 2.1% growth expected in 2018. However, with the recovery supported by temporary factors, further reforms at both national and EU level are required to raise long-term growth."

For the CEEP, the **European Centre of Employers and Enterprises providing Public Services, general secretary Valeria Ronzitti** said: "The European economy needs a strong impetus. After years of crisis we finally see positive signs of stabilisation for growth and on the employment front. However, this is not enough as we need to reinforce the architecture of the economic and monetary union. The first priority remains the banking union, the flagship initiative to deepen the EMU for which we call for swift adoption by the co-legislators. Then we need to ensure that our institutions are ready to enable upward convergence and structural reforms that are both economically and socially fair. The European Semester, empowered by the pillar of social rights, and a real dedication to investment in social infrastructures are the main tools to accomplish our common objectives."

Speaking on behalf of Europe's SMEs, **European Association of Craft, Small and Medium-Sized Enterprises** (UEAPME) **secretary general Veronique Willems** agreed with the need for a further deepening of the monetary union and asked "for a better involvement of social partners in the governance process to create ownership of reforms". On fiscal rules she asks "for a quality approach, which supports structural reforms and investment in future growth and not only focusing on quantitative data" . Finally, on a financial stabilisation function, Ms Willems doubts "that such a project will get the political support before reaching more convergence between member states" and insisted "that such an instrument has to be conditional on the implementation of jointly agreed reforms in order to avoid moral hazard".

For the future **Bulgarian presidency** (January to June 2018), **minister for finance Vladislav Goranov** remarked: "The European economy has continued its recovery which is expected to continue at a largely steady pace in the next year. However, policy uncertainty remains high and some imbalances and vulnerabilities persist. Therefore, more ambitious implementation of structural reforms is needed to complement the impact of fiscal initiatives in order to ensure that growth strengthens in a sustainable and inclusive way. The benign economic and political circumstances provide a favourable window of opportunity to take steps necessary for deepening and completing the economic and monetary union. All EU member states and beyond will benefit from a reformed and more stable euro area that can endure crises and that generates healthy economic growth."

For the future **Austrian presidency** (July to December 2018), **minister for finance Hans Jörg Schelling** remarked: "The macroeconomic dialogue is an important forum for exchanging views between those responsible for monetary, fiscal and wage policies with the aim of fostering a common understanding of current challenges and adequate policy reactions – not least for laying the ground for high growth and employment. As conditions are favourable right now, we have to push our economies towards more resilient and forward-looking structures via bold structural reforms and sustainable public finance. That would drive convergence and automatically feed into a better-functioning EMU. Against this background, implementing the agreed rules and switching from cleaning up to an ambitious 'reform mode' is essential. For this, we do not need a fiscal capacity at European level. For this, we need political commitment and adequate incentives to reform."

The next macroeconomic dialogue will be organised under the Bulgarian presidency.

Visit the meeting page Download as pdf

Indicative programme – Economic and Financial Affairs Council of 7 November 2017

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Place: Justus Lipsius building, Brussels
Chair: Toomas Tõniste, Minister for Finance of Estonia

All times are approximate and subject to change.

from 08.00
Arrivals (live streaming)

+/- 08:25 (ttbc)
Doorstep by Minister Tõniste

08.30
Ministerial dialogue with the EFTA countries (**Roundtable**)

09.30
Ministerial breakfast

10.30
Beginning of the Council meeting
Adoption of the agenda
Approval of non-legislative A items

10.35
VAT e-commerce package (public session)
– VAT obligations for supplies of services and distance sales of goods
– implementing measures
– administrative cooperation and combating fraud in the field of VAT

Review of the European system of financial supervision (public session)

Other business (public session)
– Current financial services legislative proposals
– Insolvency, restructuring and second chance

Follow-up to the Washington G20 and IMF meetings

ECA's annual report on the 2016 budget

EU Statistics

Other business

At the end of the meeting
Press conference (live streaming)

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In the margins of the Council:

6 November

Macroeconomic dialogue

11.30 roundtable

Eurogroup meetings

15.00 roundtable (Eurogroup)

17.00 roundtable (Eurogroup in inclusive format)

At the end of the meeting
press conference (live streaming)

7 November

Ministerial dialogue wit the EFTA countries

08.30 roundtable

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Main topics and media events 6 – 19 November 2017

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Overview of the main subjects to be discussed at meetings of the Council of the EU over the next two weeks.

Agriculture and Fisheries Council, 6 November 2017

The agriculture and fisheries Council will discuss the sustainable use of pesticides, trade-related agricultural issues and sustainable soil management.

Economic and Financial Affairs Council, 7 November 2017

The Council will be called on to agree on new VAT rules for e-commerce, and will discuss proposals to strengthen financial supervision. The Court of Auditors will present its report on implementation of the 2016 EU budget.

Foreign Affairs Council (Trade), 10 November 2017

The Council will take stock of the preparations ahead of the WTO ministerial meeting in Buenos Aires on 10-13 December. Ministers will also discuss the state of play of negotiations with Mexico and Mercosur.

Foreign Affairs Council (including Defence), 13 November 2017

The Foreign Affairs Council will discuss Africa-EU relations and EU strategic communications. Over lunch, foreign ministers will be joined by defence ministers to discuss security and defence. The Council will adopt conclusions on security and defence. Defence ministers will then discuss EU-NATO cooperation with NATO Secretary General Jens Stoltenberg. The European

Defence Agency’s steering board meeting with the Defence ministers will be held after the Foreign Affairs Council (defence).

In the margins of the Foreign Affairs Council, those member states who intend to join the permanent structured cooperation (PESCO) are expected to jointly sign the notification letter addressed to the Council and the High Representative.

General Affairs Council (Cohesion policy), 15 November 2017

The Council will be updated on ongoing work to amend the Common Provisions Regulation. It will also discuss on the future of Cohesion Policy post 2020.

Economic and Financial Affairs Council (Budget), 17 November 2017

The Council will prepare negotiations with the European Parliament on the EU’s general budget for 2018. The negotiations will be held at a conciliation committee meeting the same day.

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