[Peter Praet: Interview with De Tijd]

Do you know where you were when you first realised how serious the problems were?

I was at the National Bank [of Belgium] in Brussels in a meeting with European colleagues. One colleague from the Bank of England suddenly had to leave in a hurry because there were problems with Northern Rock, where customers were lining up in the street to take out their savings. For me that was frightening. I had never thought that something like that could happen again.

I remember saying to my wife at the time: I hope that we won't have a banking crisis in Belgium, because something like that goes on for a decade. The risks we were exposed to then were enormous. Fortis alone already had a balance sheet of €1 trillion then, if you include insurance. If you compared the banks' balance sheets with the GDP of Belgium, you could see how enormous the risks were. All in all we got through that period fairly well in Belgium, even if it wasn't pleasant for the shareholders and there is still a legacy from Dexia. It is just sad that the banking crisis in Europe has lasted so long.

Why exactly is it so sad?

Because it wasn't necessary. The reforms could have gone faster. That is why the costs to society are much higher than they could have been: it weighs on our growth.

It took so long because we did not have the right European institutions to bring the crisis under control, among other reasons. A debt crisis broke out that meant many families and businesses couldn't pay down their loans. In a situation like that debtors and creditors have to make a deal. But one group was in one European country and the others were in another European country. And we did not have European banking supervision yet. And there was no European resolution fund to make sure that a bank could fail without pulling others down with it. That made the situation very messy.

Did you see it coming? At that time you were the expert on financial stability at the National Bank of Belgium?

I was actually already giving warnings about the dotcom bubble in the '90s. That earned me the nickname Mister Doom, which I wasn't very happy about. I then became chef de cabinet to Federal Deputy Prime Minister Didier Reynders (MR) – I did that to get some political experience, but politics is not my thing – and left to return to the National Bank. Financial stability was really my thing. At that time I travelled to Scandinavia a lot, because in the 90's they had already had a serious banking crisis there. But what began in 2007 was much worse.

What exactly did everyone get wrong?

Back then there was very little information about how banks are interconnected and can drag each other down.

At that time I was sitting in an institution that supervises the financial infrastructure, like Euroclear. By virtue of that function, one Sunday in 2008 I had a teleconference with the American central bank, the Federal Reserve. At a certain point they let me know that the discussions with Lehman Brothers had failed. *'We couldn't reach a deal with Lehman. Now we have to be ready.'* And that was the second shock.

Then the ECB responded. It allowed the banks to borrow large amounts from it, so that they would not start selling off their assets in a panic because they needed cash. Lehman Brothers had got into trouble because of cheap subprime home loans that were no longer being repaid. But because the US subprime market is not that big from an international perspective, it was still thought at the time that the crisis could be over within six months.

That is not what happened.

Only later did we start to understand that the problem went much deeper. And I think that those who are critical of the ECB today underestimate that.

The fundamental problem was that for years we were much too optimistic about the future growth. We thought that our income would continue to grow strongly and that we would continually become more productive, but we systematically overestimated that trend. The problem was that in many European countries they then began building up debts based on that over-optimism. In that way you are cashing in on the optimism with the intention of paying back later. But there's a huge problem if these expectations don't materialise.

And that was the moment when the banking crisis turned into a sovereign debt crisis.

Yes. And once again it was a big shock. This time it was German Chancellor Angela Merkel and French President Nicolas Sarkozy walking on the beach at Deauville in Normandy who agreed that the investors in government bonds – among which many banks – in the future would have to share in losses. Until then the financial system took it as a given that euro area government debt was always repaid. That was why government bonds were used as safe collateral in transactions. In Deauville that 'given' was taken away.

How hard did that hit?

The interbank markets were completely frozen. Banks in countries with vulnerable government finances suddenly had problems because the sovereign bonds on their balance sheets – which they had considered safe for decades – suddenly weren't considered safe anymore by the markets. The economy of the euro area then entered a recession and downward pressure on prices occurred. That led to fears of a break-up of the euro. It was due to that shock that in 2012, at the Olympic Games in London, ECB President Mario Draghi signalled that the ECB would do *'whatever it takes'* to save the euro. In the years that followed the ECB has eased considerably its policies, especially with negative rates and the purchase programmes.

Five years on it doesn’t seem as if that policy is really working.

I wouldn’t be so hasty. We are still working on it. The economy is growing. While the ongoing economic expansion provides confidence that inflation will gradually head to levels in line with our inflation aim, it has yet to translate sufficiently into stronger inflation dynamics. But may I remind you that at the time there was a risk of deflation? A deflation scenario would have meant that prices would fall over a long period and people would start postponing their spending, so that the whole economy would end up in a negative spiral. That risk of deflation is now totally gone.

But we are not there yet. You are right on that.

Why is it taking so long?

Because we are coming out of an enormous crisis. A banking crisis is one of the worst economic crises there is. Especially in a region like Europe, where businesses are mainly financed by banks rather than through financial markets. And if the creditors and debtors come from different countries too, you also have a lot of political tensions to deal with as well.

In my view people don’t realise how serious the crisis was. I don’t think they realise that the world would have looked totally different – and dramatically worse – if central banks hadn’t stepped in so forcefully.

The recent strengthening of the euro is making it even more difficult.

Our communication about the exchange rate is very careful. The Governing Council of the ECB has assessed that recent volatility in the exchange rate represents a source of uncertainty which requires monitoring with regard to its possible implications for the medium-term outlook for price stability.

In the meantime criticism of the ECB’s policy is growing, because your policy is also doing some damage.

I don’t think that the stimulus policy itself is being attacked. I do constantly hear people asking whether it is time to start tapering though.

I understand why the question is asked. Growth is back. The risk of deflation has gone. But the current economic expansion has yet to translate sufficiently into stronger inflation dynamics.

What is your answer to those who think the ECB is interpreting its objective too narrowly and in the meantime causing unnecessary problems elsewhere?

That our mandate is to ensure price stability. And the ECB defined ‘*price stability’* in 2003 as ‘*close to two percent inflation in the medium term*‘.

Many people looking for the cheapest product while out shopping would probably be happy if inflation was a mere half a percent. Why push so hard to get to two percent?

Because it is very important to be credible. If everyone is confident that our objective is just under two percent inflation, then this is included in contracts and especially in wage negotiations, for example. Already now we are seeing some wage negotiations taking place based on the lower inflation rate and not on our almost two percent. This shows that ‘inflation expectations’ are still fragile.

But why “almost two percent”?

Imagine if we defined price stability as zero percent inflation in the euro area. That would mean prices would be rising in some euro area countries, but falling in some other euro area countries. It would mean that as soon as some products became more expensive, the prices of others would have to fall. Otherwise you cannot achieve an average of zero.

Imagine if we defined price stability as one percent: that would mean we would have hardly any scope to reduce the interest rate and intervene if there was a downturn. Our margin of safety would then be too small. If you look at it from a long-term perspective, there are very good reasons to aim for close to two percent.

It’s legitimate to have this debate. But anyone who thinks we should be happy with zero percent inflation because we will otherwise destabilise the financial system is underestimating the importance of aiming for close to two percent inflation.

But in the meantime the dangers of cheap money for the financial system are here, aren’t they?

I don’t deny that the longer central banks pursue this accommodative monetary policy, the greater the risk of bubbles. We are monitoring this but in the euro area as a whole there are no bubbles, although in some cities real estate has become very expensive, for example. But this possible disadvantage is too slight to justify changing our policy.

Why?

If real estate were to become too expensive, you can also address this with other, more specific measures. In Belgium, for example, the National Bank is responsible for such policies. And furthermore families in certain European cities pay a lot for property, but borrow relatively little in order to do so. So the link with cheap credit is not always equally clear. So yes, there are side effects, but we think they are manageable.

Is there a bubble forming in the equity markets?

If you look at the United States equities appear to be quite expensive. I don’t see that in Europe. Share prices may be rising due to low interest rates, but they are also increasing because the profit prospects of the firms are increasing. Don’t get me wrong: I am not an equity analyst. I am not saying that European equities are cheap or too expensive. I am just saying that at the moment they do not give rise to any concerns about financial stability in the euro area. That would be the case if, for example, many people were borrowing short-term in order to invest in shares. That would be worrying.

Another side effect is that savers are not earning any interest anymore.

What worries me the most about that is the cultural aspect. Parents can no longer explain the time effect of money to their children. They can no longer show them that spending today and spending tomorrow don’t happen at the same price. I don’t think it is good for children to get the impression that they should spend today rather than tomorrow because the interest rate is negative. The experiences and references this creates are not OK. This worries me, but again: we have to make choices.

Will low interest rates lead to a zombie economy? Will unproductive firms, which should actually go under, survive due to cheap loans?

Are we delaying the process of creative destruction by providing cheap money? That’s a fair question. We are monitoring this. If you take a macroeconomic perspective, you can see that on average firms have become more resilient and stronger. The problem is that this average can mask large differences. For that reason we are now looking at firms’ balance sheets ‘*bottom up*’ – the IMF does this too. That is the only way we can simulate – firm by firm – whether they can survive a large rise in interest expenses following an ECB rate increase. We see great progress in countries like Spain, but more needs to be done.

But the incentive to reduce debt, whether for firms or governments, is small. These debts aren’t costing them anything, at the moment.

In general remarkable efforts have been made in the last years. Nevertheless some firms but also governments are delaying restructuring. Sometimes we have the feeling that we are ‘*the only game in town*’ and that the others are not doing their job sufficiently. But how can we be held responsible for others’ lack of courage?

But isn’t it still a fact that the ECB is buying time and a breathing space, but the euro area governments are not making enough use of this breathing space to implement reforms?

This sort of reasoning is dangerous. The ECB is an institution that was given its mandate – to keep prices stable – and our independence also means that we decide on our policies on the basis of our mandate, not on the basis of other considerations.

What can you do then?

Warn people. We send a clear message that we take our task seriously. This means that as soon as inflation threatens to increase above our objective, we will intervene just as forcefully in order to prevent that happening too. We will not hesitate to do that, even if it means that interest rates will increase and those with a lot of debt are going to feel it.

Do economic problems keep you awake at night?

I have been worried about things all my life, eventually you get used to it.

But what worries you the most?

I am most worried about the governments that are reforming too slowly. In some European countries structural reforms are really needed.

Yesterday I was in Paris. President Emmanuel Macron’s reform of the labour law is impressive. What is very good is that there is broad support for it. But we now have to see how it will work in practice. There is still a lot of work to do, also elsewhere in Europe.

Has the time come for the ECB to taper its stimulus?

Not yet, we are saying. This autumn we will decide on our policy next year. I will not say much about that now. Thanks to the very strong economic growth we are more and more confident that inflation will increase towards our objective. But underlying inflation remains too low. We have to be patient and persevere with our policy. A substantial stimulus is still necessary. Everyone agrees that we have to make sure that the reduction of the stimulus takes place in an orderly manner, without any excessive shocks.

Is that going to be possible?

We will have to handle it very carefully. And we will have to be very careful about the words we use. Actually monetary policy pretty much comes down to trying to influence other people’s expectations of the future. It is a quiet and difficult exercise in mass psychology. The best example is the impact of the three words Mario Draghi said: *‘whatever it takes*‘.

That is why I have to continue to press home that we will stick to our mandate. I’m an extreme ‘*hawk*‘ in that regard. I know that some people describe me as a *‘dove’*, who prefers a more accommodative monetary policy. That’s why I am clearly saying this: we will stick to our mandate, symmetrically. If inflation becomes too high, we will react just as ruthlessly as we are now in order to get inflation back on track.

When can savers dream of getting a return on their money again?

You have to realise that there is a reason for the current low interest rates. Apart from that, one has to measure return in real terms, in other words corrected for inflation. These real interest rates have been low before the crisis as well and sometimes negative. Unfortunately it’s mostly economists who understand that; most other people don’t.

Also I hear very few complaints from people who are renewing a mortgage at a low rate and are now paying off their house more cheaply. Even though you sometimes hear the same people complaining afterwards that they are not earning anything on their savings.

It is true that some groups are affected by our policy. Pensioners who rent their home and have a lot of savings are clearly feeling the effects. But helping to cushion that blow is a job for governments.

But when will there be a return on savings again?

Once we can return to a normal policy. So, when there is a sustainable return to an inflation below but close to 2%. Our policy is working and we see a light at the end of the tunnel. And it isn't the lights of a train rushing towards us, as some people jokingly say.

But as to when: it will take time. Don't forget that we have always confirmed that we will first stop purchasing bonds and only then consider raising interest rates. Patience is needed.

Remarks by Vice-President Dombrovskis at the first informal ECOFIN press conference in Tallinn

Good evening. Thanks to the Estonian Presidency for the warm welcome in Tallinn and for organising this timely discussion on the Economic and Monetary Union. We also discussed FinTech in a broader context of digital innovation.

On the Economic and Monetary Union, we discussed the rules and institutions of our Union.

It's clear that a strong Economic and Monetary Union needs both well-functioning institutions and credible rules.

Both rules and institutions were strengthened during our response to the crisis. But there is room for making the EMU governance more efficient, complete and transparent.

However, reforms should not be done for the sake of reforms. Form must follow the substance. Institutions should evolve to meet the objectives we set.

The Commission believes that future EMU development should happen within the EU or community legal framework.

This applies to a possible future transformation of the European Stability Mechanism into a European Monetary Fund, which then should be firmly anchored in the community framework. And it also concerns possible creation of a European Minister for Economy and Finance. This new Minister should also work to promote structural reform efforts building on the work which we do already since 2015 with the Structural Reform Support Service. The Minister of Economy and Finance is one of the initiatives which we intend to launch with a 2025 perspective.

We discussed the link between the EMU and the EU budget, and in particular the link with structural reforms and Euro area fiscal stabilisation function. So this part of our idea to have a euro area budget line within the EU budget.

All these topics that I mentioned will feature in the Commission's EMU package, which we intend to put forward on 6 December. Today's discussions provide us with valuable input for our preparatory work.

Today we also discussed one of the key Capital Market Union files – FinTech and FinTech revolution, which we are facing.

We already see FinTech services such as mobile payments, peer-to-peer lending, and online investments benefiting millions of Europeans. Looking ahead to the future, technologies like artificial intelligence, distributed ledgers and cloud computing hold even greater potential.

Ministers agreed that Europe should support the development of FinTech sector, emphasising the importance of technology neutrality.

This will only work if our companies will be able to take advantage of our single market, meaning to scale up, so that they can compete with their rivals in China and the US, where FinTech is booming.

For example, we are looking into EU-wide enabling legislation for crowdfunding and peer-to-peer lending. This would increase the scale and facilitate cross-border activity in this rapidly growing sector.

As to regulation, many spoke in favour of adopting existing rules to the challenges that FinTech brings, such as cyber threats and data privacy. But it is also important that FinTech is not 'regulated to death', even before this sector has evolved.

The Commission is currently working on a FinTech Action Plan, which we intend to present early next year.

Thank you.

ESMA lays out procedure for ETDs access to CCPs under MiFID II

MiFIR establishes non-discriminatory and open access provisions for trading venues and central counterparties (CCPs). In particular, trading venues are obliged to provide access including data feeds on a non-discriminatory and transparent basis to CCPs that wish to clear transactions executed on those trading venues.

However, when trading in ETDs if one trading venue falls below a certain threshold, the trading venue may notify ESMA and its national competent authority (NCA) of its intention to temporarily opt-out from the access provisions with respect to those instruments.

The ESMA procedure is aimed at NCAs and trading venues that can benefit from the exemption foreseen in Article 36(5) of MiFIR.

Trading venues are invited to send their notifications to the following address: smk@esma.europa.eu. As clarified in a Q&A recently published by ESMA (here), "Trading venues should notify their intention to temporarily opt-out of the access provisions to ESMA at the very latest by the end of September 2017 according to the requirements set out in in Articles 17 and 19 of Commission Delegated Regulation (EU) 2017/581".

Joint statement by Commissioners Oettinger, Bulc and Gabriel, on cooperative, connected and automated mobility

"*Cooperative, connected and automated mobility is becoming a reality for EU citizens.*

Together with Member States we have today agreed on actions to strengthen cross-border collaboration on testing.

With the discussions held at the margins of the Frankfurt International Motor Show, Member States and industry commit to cross-border testing in Finland, Norway and Sweden. These new tests will complement tests already taking place between Germany, France, Luxembourg, Belgium, the Netherlands, Portugal and Spain. We soon expect more Member States to make commitments to such tests. Member States have also tasked the Commission to develop a common European approach to testing, to ensure that smart vehicles can travel smoothly across Europe.

We have an opportunity we cannot miss: Europe can lead in the field of connected mobility, but for this, all Member States and industry have to work together closely and move into the same direction. There is no time to lose.

Connected and automated mobility builds on the Digital Single Market strategy and is an integral part of the Commission's strategy on low emission mobility and the 2018 Mobility Package. We therefore need to advance quickly with all relevant proposals under these strategies, above all the updated EU telecoms rules to boost investments in high-speed and quality networks and the

Commission's Masterplan on Cooperative Intelligent Transport Services.

Therefore, we call on co-legislators to act swiftly on all proposals already presented."

Background

On 23 March 2017, 27 Member States plus Norway and Switzerland upon invitation of the EU Commission signed a Letter of Intent committing to work together on large scale testing and demonstrations in the area of connected and automated driving. This Letter of Intent addresses the digital aspects, such as connectivity, spectrum, data, cybersecurity, artificial intelligence etc.

Under the Dutch Presidency, in April 2016, the EU Member States also signed the Declaration of Amsterdam on Cooperation in the field of connected and automated driving. The Declaration establishes shared objectives, a joint agenda and proposes actions for both Member States and the Commission. It does not have a formal governance structure but the intention is to meet at a high-level once or twice a year under a rotating chairpersonship. The last meeting took place on 14 and 15 September 2017. In their conclusions Member States entrusted the Commission with setting up a task force to develop a European approach to testing.

For more information

Cooperative, connected and automated mobility: stepping up the efforts in Frankfurt

The High Level Group for the automotive industry GEAR2030;

The C-ITS Strategy and the C-ITS Platform addressing transport policy for Cooperative Intelligent Transport Systems, including its relation to cooperative, connected and automated mobility;

The various research projects in Horizon2020;

Other relevant digital initiatives include the 5G Action Plan (in which automotive is one of the verticals treated), the Digitising European Industry strategy and the Communication on Building a European Data Economy.

Reinvigorating Multilateralism: EU attends 72nd United Nations General

Assembly Ministerial week

The EU representatives will participate in a large number of events at the United Nations and meet with world leaders, reflecting the European Union's engagement as a force for positive change, in support of multilateralism and a rules-based global order. The level and breadth of the EU's participation illustrates the strong cooperation between the European Union and the United Nations, who work hand in hand to jointly deliver peace and security, advance human rights and sustainable development, thus changing lives across the globe for the better.

First Vice-President Frans **Timmermans** and High Representative/Vice-President Federica **Mogherini** will join the President of the Council, Donald **Tusk,** who will – on behalf of the EU – speak at the General Debate on Wednesday, 20 September.

Highlights of the week

To find common solutions to global challenges, the European Union will host several events in the margins of the General Assembly.

- Represented by Commissioner Cecilia **Malmström**, the EU will launch an **International Alliance for Torture-Free Trade**on Monday, 18 September. The initiative, which is a joint effort with Argentina and Mongolia, aims at ending the trade in goods used for capital punishment and torture. It reflects the European Union's commitment to protecting human rights, and to the fight against torture and the abolition of the death penalty.
- In line with the European Union's support to the Agenda 2030 and Sustainable Development Goal 5 on Gender Equality, on Wednesday, 20 September the EU will launch together with the United Nations a **global initiative to eliminate all forms of violence against women and girls**. High Representative/Vice-President **Mogherini** and Commissioner Neven **Mimica** will present the initiative alongside UN Secretary General António Guterres. They will also be joined by high-level participants and UN goodwill ambassadors, among them Malala Yousafzai.
- Also on Wednesday, 20 September, the EU will host a ministerial-level event on the **Humanitarian Crisis in Iraq**, reaffirming the EU's commitment to enhancing humanitarian assistance and highlighting the need for concerted, comprehensive work on the political challenges in the country. Commissioner Christos **Stylianides** will open the event and HRVP **Mogherini** will deliver the closing remarks.
- The **crisis in Syria** remains a top priority for the European Union. The EU, represented by HRVP **Mogherini** and Commissioner **Stylianides**, will host a high-level meeting on **Thursday, 21 September**, to keep the international community's response to the Syrian crisis and its work for a negotiated end to the conflict at the top of the international agenda. Following up on the 2017 Brussels Conference on Supporting the Future of Syria and the Region, the focus will be on support inside Syria, from humanitarian assistance to resilience and stabilisation efforts, as well

as support to neighbouring countries.
- Under the umbrella of the **EU-Africa year 2017** and in the run up to the African Union – EU Summit due to take place in Abidjan in November 2017, EU representatives will participate in a series of events to take the partnership between the two continents forward. This includes an event on the European External Investment Plan on Wednesday, 20 September, co-hosted by the EU and the UNDP, where the EU will be represented by the HRVP **Mogherini**, Commissioners Johannes **Hahn** and **Mimica** and the President of the European Investment Bank Werner **Hoyer**.

First Vice-President **Timmermans**, alongside President **Tusk** and HRVP **Mogherini**, will be opening the **annual EU reception** on Tuesday, 19 September, which will be dedicated to the Erasmus programme and a youth networking event.

As well as a highly charged bilateral agenda, EU representatives will participate in several other events, on issues such as climate change, migration, security and development, and the prevention of terrorism.

First Vice-President **Timmermans** will be representing the EU at the joint EU – United Arab Emirates event on oceans and climate, as well as the Bloomberg Global Business Forum Panel on Climate Change and Migration. Commissioner Miguel **Arias Cañete** will be hosting a ministerial-level meeting on climate change on Sunday, 17 September.

Commissioner Dimitris **Avramopoulos** will be addressing the UN-hosted event marking the first anniversary of the New York Declaration for Refugees and Migrants, and will deliver a keynote speech on the prevention of terrorist use of the Internet on Wednesday, 20 September.

The entire agenda of the individual EU representatives can be found on their websites.

For More Information