

# 'The Transatlantic Economy Ten Years After the Crisis: Macro-Financial Scenarios and Policy Responses'

Ladies and gentlemen,

In a world economy which never sleeps, 10 years seems like an eternity. Indeed, much has changed in the world since the fall of Lehman Brothers. And Europe has changed after 10 years of steady reform. Today is a good opportunity to look back on this decade, and reflect on what we can learn from it. So I thank you for the invitation to speak today.

- I will first briefly address our response to the crisis, both in Europe and here in the US.
- Then, I will move to discuss those post-crisis reforms that we are still working to complete.
- And I will end by looking at some of the common challenges we face today, one decade later.

Starting with the crisis, it is clear that overall the US recovered faster than Europe did. This is in part due to the structure of the American economy, which allowed it to bounce back more easily. Here I could mention more flexible product and labour markets, as well as more integrated and deeper capital markets. And these aspects have certainly inspired EU policies in recent years.

In Europe, we learned the hard way that a crisis of this scale cannot be dealt with at national level alone. Although each country had to remedy their particular weaknesses, the existence of major spill-overs between them meant that this was not enough. Let me recall a few reforms that have improved our ability to prevent and respond to shocks:

First, we have put in place the European Stability Mechanism – or ESM – to provide support to Member States in difficulty, against the necessary policy conditionality. With half a trillion euro of fire power, it helps to ensure financial stability for the euro area.

Second, we have put in place a single rulebook for banks, and set up the European Supervisory Authorities to ensure more convergent financial supervision. We have adopted more than 40 pieces of legislation to restore financial stability and market confidence, building on the G20 agenda for financial reform. Today, our financial system is more stable and resilient, and banks are stronger and much better capitalised.

Third, the single currency calls for more integration, so in the euro area we have set up a unified framework for bank supervision and crisis management – this is the Banking Union. Along with a deeper single market in capital – the Capital Markets Union – it should help to fuse together European financial markets, and increase their shock-absorption capacity.

Fourth, we have strengthened EU-level frameworks for economic and fiscal governance and surveillance. This allows us to better tackle cross-border spill -overs and to coordinate economic policies among the Member States.

And finally – as in the US – all of our efforts were supported by the monetary policy of the European Central Bank. These actions were combined with substantial national reform programs across Member States.

To sum it up, the times when each euro area government considered itself an island are long gone. We are fundamentally connected, and so we act accordingly.

As a result, the EU economy is back on track. Europe is growing at its fastest pace in a decade: we had 2.4% growth last year, and we expect equally solid growth in 2018, at 2.3%. Employment is at record levels, and the unemployment rate is at its lowest level since 2008. Social trends are following suit, however unevenly, and the share of people at risk of poverty or social exclusion has fallen to pre-crisis levels. But we will keep up the focus on making our economic recovery more inclusive. All members of society should feel the benefits of this growth.

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The euro came out stronger from the crisis. But we should keep up our efforts to ensure we are better equipped in the future. The crisis started as a financial crisis, so completing the Banking Union is at the top of our agenda.

We now have a single supervisor overseeing systemic banks. And we have a single resolution mechanism to resolve banks in an orderly manner, so that taxpayers are no longer first in line to pay for the banking sector's mistakes. These two institutions should help prevent a repetition of the massive bail-outs, capital injections, and other ad hoc emergency measures that we saw during the crisis.

But to manage a banking crisis with the least possible impact on financial stability and taxpayers, we need more. First, we need a common backstop to the Single Resolution Fund, to act as lender of last resort in the case of a serious bank crisis. There is a broad agreement that this could be done on the basis of the European Stability Mechanism.

We also need a European Deposit Insurance Scheme. This would ensure that depositors enjoy the same level of protection, regardless of where their account is in the euro area. It would reduce the risks of bank runs, and also give more time to conduct an orderly resolution of banks when needed.

Our second immediate priority is to develop a deeper and more integrated

single market for capital in the EU, the Capital Markets Union. We launched this programme as a response to what we saw during the crisis: bank financing became scarce, and alternative sources of financing were hardly available. It is about giving businesses more diverse sources of funding and deepening our economy's shock-absorption capacity. And with London, Europe's largest financial centre leaving the single market, this has become more urgent.

On this the EU has already adopted significant legislation. This includes EU labels for Venture Capital, a simplified prospectus for raising capital on public markets, and new rules on securitisation. But there are many more proposals currently waiting to be adopted. Our goal remains ambitious but realistic: to have the building blocks of the Capital Markets Union in place by 2019.

Finally, markets cannot be expected to smooth all shocks alone. To be well-prepared, the right stabilisation tools to manage large economic shocks should be put in place. We also want to build on the success of the existing ESM and turn it into a European Monetary Fund. This should help it to tackle future crises even more effectively, and with greater democratic oversight. We also need to strengthen the resilience of the euro area countries, by providing additional support for structural reforms.

Our position is clear: The current economic tailwinds provide us with a window of opportunity to deepen the Economic and Monetary Union of the euro area countries. We cannot and should not wait for another crisis.

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Ladies and gentlemen,

In a world where markets and financial systems are globalised, no country exists in a vacuum. So let me now turn to challenges that we have in common and which, I believe, are best addressed if working together. We are indeed interconnected in deep networks, and this is important for financial and economic regulation. Because without joint action to safeguard financial stability and work for healthy economic growth, we would have neither. To sum it up: global markets need global rules.

This lesson guided actions at the European and international level after the crisis. It is still our guiding principle today. The EU is committed to maintaining and developing strong international standards and global cooperation in the area of financial services. We want to avoid regulatory arbitrage and renewed instability. And we want to ensure a level-playing field for companies and promote continued financial integration.

For instance, international cooperation is crucial for maintaining a level playing field for banks. So we welcome last December's agreement on reforms to the Basel III framework, which represents the last major piece of the global post-crisis regulatory reform. It is essential that all major jurisdictions implement all the key elements of the agreement, and we in Europe are committed to doing so.

But finance is changing rapidly, and new areas call for new efforts to cooperate and set policies together. Cryptocurrencies and cybersecurity are two good examples which the G20 has agreed to look into.

In addition, there is the hot topic of Brexit, which has a potentially global impact, not least when it comes to finance. The negotiations are proceeding. Important issues remain to be resolved. We cannot yet be sure of the final outcome. As Vice President in charge of financial stability, I cannot stress enough the importance of all parties – both firms and supervisors – being prepared for all different scenarios. I am confident that we will manage risks in a responsible way. And I am confident that the EU and the UK will find a new way of working together.

Fight against climate change is another global task that we need to undertake together. The situation is urgent, and the potential risks for the global economy and financial stability are high. 17 of the last 18 hottest years in recorded history have occurred since the year 2000. Last year, insurance companies paid out an all-time high amount – 135 billion USD – in premiums to the victims of natural catastrophes. This is just one example. The financial industry also needs to factor in this reality before it is too late. [We should also seize the opportunities that the transition to the low carbon economy brings.]

To tackle climate change, public money will not be enough. We want to facilitate private investment in green and sustainable projects. We need to put finance at the service of our planet. This is why the European Union has presented a strategy for green and sustainable finance.

In May, we will table a draft EU law to develop a unified EU classification of sustainable economic activities. We will define what is green and what is not. Based on this, we will be able to define EU-wide standards and labels for green bonds and other green financial products.

Next month we will also propose a law which will task asset managers, insurance companies and pension funds to incorporate environmental, social and governance factors into their investment decisions. This should help increase the awareness of sustainability risks, and steer more funding towards green and sustainable projects.

However, Europe's ambition on this will reach twice as far if the US joins forces with us. We hope that each of you in this room can give a chance to this long-term objective and new policy.

Finally, I will briefly touch upon trade. The EU is a champion of free trade, and for good reason. In the last decade, open trade systems have helped both the EU and US economies recover and create many high-quality jobs for our citizens.

That is why the EU is open for business: We have recently adopted a trade deal with Canada, and we are in the final stages of doing so with Japan and Singapore. We have just reached an agreement in principle with Mexico, and negotiations are ongoing with four countries in the Mercosur association.

The EU and the US should heed our long-standing tradition of working together for fair trade through multilateral fora like the World Trade Organisation.

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Ladies and gentlemen,

The transatlantic leadership can ensure a rules-based order and level playing field for the global economy. It is in our mutual interest to uphold this partnership, especially given the challenges ahead of us, be it geopolitical, economic or societal. Strong economies can prevail by staying open to cooperation and dialogue.

I am sure that awareness of this fact is shared on both sides of the Atlantic, although we have witnessed falling support for such approach amongst our people. Not all people are convinced of the benefits of globalisation. We cannot ignore it. This is why we should focus on making globalisation work for everyone.

What we really need is not less globalisation, but more fairness: fair pay, fair tax, fair trade, and fair treatment of countries and individuals. These are the policies we should aim for in a cooperative and multilateral way.

Thank you very much.