



EUROPEAN CENTRAL BANK

EUROSYSTEM

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**EU – Future Challenges**

**The central banking perspective**

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# EU integration and Brexit negotiations

EU integration: Brexit negotiations have demonstrated its fundamental strength

- **Strong unity of the EU27 during the negotiation process:**
  - Solidarity with Ireland over the issue of the Northern Irish border
  - Communicating through a single united voice. Efficient division of task between Member States and Task Force 50
- **Single Market and indivisibility of the four freedoms:**
  - No “cherry picking”
  - No “à la carte” model for the future relationship. UK must choose within existing framework (EU membership, EEA membership, customs union, FTA)
  - No compromising the EU’s regulatory autonomy

# Brexit implications and financial integration

Brexit will require a push for further financial integration

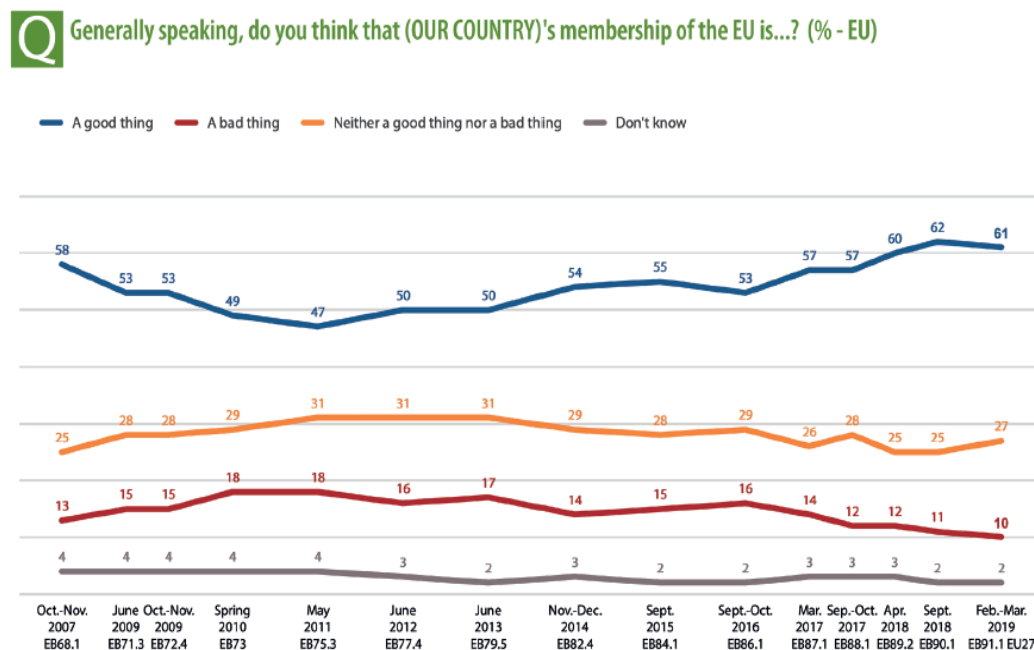
- **Brexit and Capital Markets Union:**
  - Potential rebalancing of activities to the EU...
  - ... but risk of reversal of financial integration (fragmentation across multiple hubs)
  - Need to upgrade supervisory and regulatory framework?
- **How stringent should the EU third country regime be?**
  - Mutual recognition vs. Equivalence
  - Need to avoid a race to the bottom
- **Implications for the banking sector:**
  - Potential increase in the size of the banking sector
  - Completing banking union remains a priority

# How to foster the pro-European sentiment?

A chance to leverage on pro-European sentiment (I)

- **Pro-European sentiment held up during the crisis, and currently stands at record highs**

- Value-based measures, including support for EU membership and support for the euro, were little affected by the crisis
- Pro-European sentiment has risen to a record-high since the Brexit referendum



Source: Eurobarometer 2019 (91.1), Q411

- **The UK has traditionally been – and remains – an outlier with regards to European identification**

# How to foster the pro-European sentiment?

## A chance to leverage on pro-European sentiment (II)

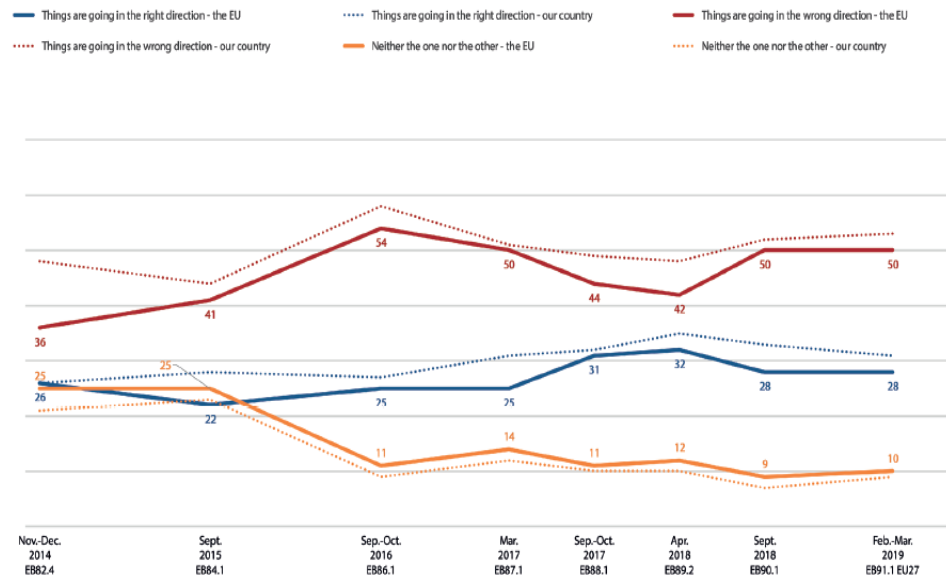
- **Increasingly, the debate is about *not whether*, but *what kind of Europe we want*.**

- While citizens' value systems have been little scathed by recent crises, the crises have fuelled **dissatisfaction with *policies and institutions*** across the EU.
- Leveraging on this dissatisfaction, **Eurosceptic parties** have changed their narrative to **increasingly focus on salient issues**.

- **To address citizens' concerns, it will be important for EU institutions to respond to salient issues with sound policies.**

- EU Member States and institutions should seize the departure of the UK as an opportunity to define more unified policy positions.

**Q** At the present time, would you say that, in general, things are going in the right direction or in the wrong direction, in (OUR COUNTRY) / in the EU? (%)



Source: Eurobarometer 2019 (91.1), D73.1, D73.2

# The importance of strong international cooperation

- Cross border cooperation is not only key in Europe.
- Also at global level, it remains very important to reaffirm commitment to international cooperation
  - **Multilateral cooperation** and effective financial regulation are crucial components of a sustainable global economy, necessary to help avoid major disruptions in global financial stability.
- Europe's coordination mechanism and speaking with one voice in global fora is important
  - as a role model also in view of growing scepticism towards multilateralism
  - as an opportunity for a stronger European voice promoting European values.

# The importance of strong international cooperation

## Multilateral cooperation supports open borders

- Free trade has been beneficial for driving economic growth in the world. Irrespective of the aggregate benefits, free trade is often seen as one of the factors behind rising inequality.
- Several countries started to react by protectionist measures, also aiming to protect the weaker part of the population. This obviously comes at a cost e.g. in terms of lower total growth.
- There is an alternative to protectionism: by encouraging regulatory convergence of standards, e.g. labor and environment standards, multilateral cooperation can also help to protect people from rising inequality

# The importance of strong international cooperation

## Multilateral cooperation supports regulatory convergence & financial stability

- Financial liberalization in the framework of multilateral cooperation has been a key factor driving global economic prosperity.
- The recent implementation of protectionist measures poses no imminent risk to global financial stability.
- However, if protectionist tendencies gain ground, economic growth and employment will suffer across the globe. Also, financial variables could be severely affected, aggravating the negative impact.





Thank you