Gilles Noblet
Principal Adviser
DG International & European Relations
European Central Bank

EU – Future Challenges
The central banking perspective

Joint Vienna Institute
17 May 2019
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

- 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.
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.
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.
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