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"Uncertainties of 2023"

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Good evening to everyone,

it is my pleasure to address this audience tonight - and I would like to use this occasion to wish you all a very good 2023.

I would also like to thank AFME for the invite, and for bringing us here at the beginning of the year to look at the past 12 months and to focus on what is ahead of us.

2022 is behind us - and I do not know whether many people would regret it being gone.

It was the year of unpredicted inflation, falling real incomes, rising interest rates, weaker euro, skyrocketing debts, falling asset prices, markets volatility, worries that Europe might get lost between uncoupling US and China, and the persistence of the pandemic.

There is a lot of uncertainty ahead; Putin is a big unknown. While Europe is united in its support for Ukraine, the new US Congress has still to prove its worth on Ukraine. At the same time, the NATO was strengthened, and it might become bigger.

For decades we thought we lived in a world of a global convergence around a set of European universal values. Unfortunately, this vision does not fit the world of today. Neither the one of tomorrow.

The world is divided between democracies and autocratic regimes. Russia's brutal invasion on Ukraine highlights this trend. This unlawful invasion can be seen as the first battleground in a long struggle between dramatically opposed political systems. The resistance of Ukraine is not conducted only through military means.

My understanding is that amidst the chaos and the uncertainties of the war, the central bank of Ukraine is keeping its accounts in orders and continuing the dialogue and cooperation with EU authorities.

They are looking at the situation of their assets, their NPLs, their collaterals - many of which have been destroyed by the war - but so far things are under control.

It is another sign of their willingness to continue the fight against the Russian invaders.

On sanctions, the democratic world works now on the tenth package of those, aim at isolating Russia.

Globalization is definitely not dead. It works and the global economy continues to grow. But ahead of us there is a battle for the global institutional order.

Last year, there have also been many political changes across the Channel.

More than 50% of the Brits now regret Brexit; and we have recently heard the Mayor of London saying that it would be good for the UK to join the European single market.

The European Union certainly wishes to have a positive and stable relationship with the United Kingdom.

We face the same global challenges. Indeed, in 2023 we may see the relationship between the EU and the UK on the path towards normalization, as there seems to be a chance to find a solution on the Northern Ireland Protocol.

This year we may also see the American economy return to growth, and the FED seems to have the inflationary pressures under control.

As for what concerns Europe, the ECB - the second most important central bank in the world - says that should there be a recession, it will only be a mild one.

In its fight against inflation, the ECB is working at the level of both the demand and supply side.

But we also see also the importance of a global component of inflation. We have been working on mitigating the spillovers from the energy crisis to the world of finance.

In addition, the economic fundamentals in the EU are different - we see falling real wages in Europe, which is not the case for the US.

On the upside, we see today, after a rather big rise of the dollar, the euro getting stronger.

Overall, it is rather likely that interest rate policy will remain a very central topic this year.

The ECB has also established a Transmission Protection Instrument to intervene in situation of emerging volatility in member states.

This kind of safeguards in place to protect the Union are very important. We all remember that in 2020, in the context of pandemic, the EU launched a jointly funded debt, the RRF, within the Next Generation EU framework, which is today used as a major source of funding for reforms and public investment.

This year we aim at reforming the European fiscal framework in a way that may allow us reduce debt ratios over time and lead us to an appropriate level of fiscal support.

I think there is consensus among member states that debt ratios should go down. Debt level must be sustainable.

In the short term, it may still contribute to reduce inflation through subsidies, to be reversed in the longer term.

Speaking about subsidies, I should probably mention the Green Deal Industrial Plan, presented last week by Ursula Von der Leyen in reaction to the American Inflation Reduction Act. The Plan would be embedded in the MFF framework.

The Plan includes regulatory initiatives for clean tech, projects of common European interest, critical raw materials, boosting investment through temporary relaxation of state aid rules and the establishment of a European sovereignty fund. It is also aimed at developing new skills and facilitating trade.

As you know, the IRA has drawn concerns in Europe on the assumption that it can lead to shifting investment away from Europe.

Still, the EU is committed to continue our engagement with the US along all existing paths, and we have a good platform to work jointly - the TTC.

On the digital side, yesterday in the EP we had a conversation with Fabio Panetta, head of the ECB task force on the digital euro.

We are still at the stage of asking questions, but in May the Commission should publish a legislative proposal for a Regulation that will lay the groundwork for the rollout of the digital euro.

There seems to be growing understanding that the anchor of a digital monetary system should be the central bank digital currency.

A digital euro is not intended to become the dominant instrument for transactions, but it will allow the Union to have a more stable and secure digital economy.

The way the ECB designs it ensures that it will not become a risk to the stability of the banking system.

As you know for a couple of years European reflection on the future has taken place within a framework of the open strategic autonomy, rationalizing dependency, cutting across trade tool kit, looking at supply chains, unfair competition, state aid.

The approach to the financial sector has also been affected by this reflection, and the concrete efforts to build a fully-fledged, single capital market can be seen as part of it.

It is not about a closed independent market, but rather about ensuring that the European financial market is resilient and competitive.

It is about thinking about our capital markets with a global mindset, and openness is at the center of it.

I see this logic in what we do within MIFIR, MIFID and EMIR.

Changes to the current framework are necessary.

Today's financial markets in Europe remain rather under-developed compared to those of other jurisdictions, such as the US or the UK.

As highlighted in the most recent AFME's report, EU domestic market capitalisation of listed shares accounted for 10% of the world's total in 2022, a decline from 18% in 2000.

Another useful figure shows that the EU market capitalisation reached 74% of EU GDP in 2021, against 194% for the US in the same period.

The report stresses that this is due to a combination of factors, including an ongoing trend of company de-listings (from 7600 EU domestic listed companies in 2000 to 7200 in 2022), fewer IPOs (from an annual average of 370 in 2000-06 to 102 in 2022), and most recently lower company valuations.

AFME also shows that while the United States, the UK, Australia, even China, continue to exhibit economic growth in the medium-term, the markets in Europe are subdued.

During the pandemic, securitization in the US, Australia and China played a supporting role in freeing up capacity for bank lending. Conversely, in the EU the average annual securitization issuance has declined by 10.9% compared to pre-pandemic averages.

In addition, the development of capital markets is very heterogenous across EU Member States, with market capitalization-to-GDP ratios ranging from 150% in the NL and 114% in Sweden, to less than 10% in certain Central and Eastern Europe countries.

What results from the data is that capital market activity in the EU is concentrated in a small number of countries (France, Germany and the Netherlands represent 55% of total EU capital markets for example).

The MIFIR review aims at addressing in part these problems. Its two main objectives are to reduce the fragmentation and increase the attractiveness and competitiveness of EU capital markets.

In the next few weeks, we will finalize the European Parliament's negotiations, after which we will enter into trilogues with the European Council and the Commission.

I will never forget the article in FT back in 2019, bluntly stating that after Brexit the European capital market is just an embarrassing failure.

I hope we will stop embarrassing our British friends working in 2023 on important capital markets reforms.

I also often hear that if we make investment products less costly for ordinary citizens and move to higher level of financial literacy, we will have faster progress in capital market. I agree though it is not a panacea.

I think that strengthened international role of euro, as well as its digital version, would be also conducive to capital markets growth. It will work both ways, as stronger capital markets will also make the international role of the euro more relevant.

Yesterday we voted in ECON in favor of the EP negotiating mandate on AIFMD.

Our EPP Rapporteur, Isabel Benjumea, was able to secure a large majority to support her position.

The Parliament's approach requires fund managers to have more tools on hand to deal with a cash crunch, give greater powers to NCAs to step in during a crisis and create more reporting on outsourcing — a major Brexit related issue.

Yesterday we also voted on the CRR and CRD.

You know very well how important the banking package is - in particular as we have a bank based financial system in Europe, and banks are heavily regulated and supervised.

Yesterday adoption paved the way for trilogues on the package to begin.

Europe is not the only one working to implement the Basel rules.

The US and the UK, as well as other jurisdictions, are also working on these issues. I believe that the finalization of these packages will be a focus for the Swedish and Spanish Presidencies.

The negotiations in the EP will soon also start on EMIR, a key piece of legislation that aims to increase the attractiveness of the EU for clearing.

Changes to the clearing environment will take some time - clearing is a global business, with enormous economies of scale.

And we know that the forced relocation of businesses is very rarely a successful endeavour.

But much can be done to reduce the regulatory burden for EU CCPs, which today can wait up to two years to put a new product on the market, or to change their risk models.

This is far too long and removes the interest of banks to clear in the EU.

My understanding has always been that when the market infrastructures get bigger, when the pie grows, there will be consequences for supervisory system.

European solution for supervision is a natural way to go. I have been a longstanding advocate for ESMA to become the single supervisor of EU CCPs.

Member States interests have often prevailed, and the supervision of the EU CCPs today remains in the hand of the NCAs, leading to a situation where ESMA has better and more accessible data on the UK CCPs than on the EU CCPs.

Also, different regulatory spaces mean more red tape and higher costs for companies.

We should provide Europe with a regulatory environment fostering the capacity to compete globally. But also capable of influencing global standards.

When I look at the Commission legislative programme for 2023, there is more to come.

On banking, the proposal for a review of the Crisis Management and Deposit Insurance framework, a regulation on the Digital euro, and a new, Open Finance Framework.

As for financial markets, the centerpiece will be the presentation of the new Retail Investment Strategy, with its strong focus on investor protection and financial literacy.

I know that many of you are following this topic particularly closely because of the possible ban on inducements.

Indeed, the Commissioner seems to have confirmed yesterday that the direction in which the Commission is going is towards a ban on all kinds of inducements.

The topic is highly controversial, and we already see divisions forming in the European Parliament, which seems to suggest that negotiations may occupy a large part of next year.

The Swedish presidency will have a lot on its plate.

The reform of the fiscal rules will not be a walk in the park.

And there will be trilogues on key files such as the Banking Package, the review of Solvency II, MIFIR, EMIR, the AML Package. And work will be started on the Listing Act and the Insolvency Procedures.

Several of these files may be picked up by the upcoming Spanish Presidency, together with the CMDI, digital euro and retail investment strategy.

To conclude, 2023 will be another busy year. As I said, hopefully a good year for EU capital market.

My hope is that it could also be the year when we see the end of the war in Ukraine, the normalization of the EU-UK relationship and the strengthening of our transatlantic alliance, a significant reduction in inflation and costs of living.

From the perspective of the financial sector, my wish is that we can see significant advances towards more resilient, attractive and competitive capital markets in Europe.

I certainly stand ready to do my part in advancing the legislative work towards these objectives.

I wish you all a very good evening and an even better year - and I will now look forward to your questions.