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2018 European Capitals of Culture: Leeuwarden and Valletta

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In **Leeuwarden**, celebrations will kick off on 26 and 27 January, with artistic installations and performances by professional and amateur artists across the city, and museums opening their doors to visitors throughout the Friesland region. European Commission First Vice-President Frans **Timmermans** will attend the official opening ceremony on 27 January.

Commissioner **Navracsics** said: *"The European Capitals of Culture help bring communities together through culture with long-lasting benefits for the respective cities, their citizens and their economies. 2018 will be a special year as it is the European Year of Cultural Heritage, and both Capitals have included many projects promoting cultural heritage in their programmes – contributing to highlighting the role of culture in building a European identity. I wish Leeuwarden and Valletta every success for the coming year."*

What's on?

The programme for Valetta's *festa* aims to encourage artists and audiences to rethink the traditional view of culture. Due to Malta's specific location as an island-state between Europe and North Africa, the programme also aspires to bring together different points of view from the various shores of the Mediterranean. More than 140 projects and 400 events are included in the programme, organised around three main themes: "Island Stories", "Future Baroque" and "Voyages". About 1,000 local and international artists, curators, performers, workshop leaders, writers, designers, choirs and film-makers will be involved, and celebrations will continue throughout the year across the islands of Malta and Gozo.

With the concept of *iepen mienskip* (open community) at the centre of its programme, Leeuwarden aims to strengthen and connect communities from across the Friesland region and Europe, with more than 800 projects involving music, theatre, landscape art, opera, and sport taking place throughout the year. An exhibition by Dutch graphic artist M.C. Escher, an opera about Mata Hari, an event with Frisian horse-breeders, grassroots projects such as "European sports for all" are just a few of the many projects that will contribute to raising awareness and increasing understanding of cultural differences.

Background

The European Capital of Culture was initiated by the then Greek Minister of Culture Melina Mercouri in 1985 and has become one of the most high-profile cultural initiatives in Europe. The cities are selected on the basis of a cultural programme that must include a strong European dimension, promote the participation and involvement of the city's inhabitants and contribute to the long-term development of the city and its surrounding region.

It is also an excellent opportunity for the cities to shape their image, put themselves on the world map, attract more tourists and think about their own development through culture. Being a European Capital of Culture has a long-term impact, not only on culture but also in social and economic terms, both for the city and for the surrounding region.

In 2017, Aarhus in Denmark and Pafos in Cyprus were European Capitals of Culture. Following Leeuwarden and Valletta in 2018, the future European Capitals of Culture will be Plovdiv (Bulgaria) and Matera (Italy) in 2019, Rijeka (Croatia) and Galway (Ireland) in 2020, Timisoara (Romania), Elefsina (Greece) and Novi Sad (Serbia, candidate country) in 2021, and Esch (Luxembourg) and Kaunas (Lithuania) in 2022. All EU Member States, candidate countries and European Free Trade Association/European Economic Area countries participating in the Creative Europe programme can become a European Capital of Culture.

For More Information

Leeuwarden 2018 – European Capital of Culture

#LF2018

Valletta 2018 – European Capital of Culture

#Valletta2018

European Capitals of Culture – Thirty years of achievements brochure

European Capitals of Culture factsheet

European Year of Cultural Heritage: https://ec.europa.eu/culture/european-year-cultural-heritage-2018_en

Factsheet "culture as a driver for EU unity" – The Commission's Contribution to the Leaders' Working Lunch Gothenburg, 17 November 2017

Daily News 03 / 01 / 2018

Commission welcomes the entry into force of new rules to prevent tax evasion and money laundering

The Commission has welcomed the entry into force of new rules obliging Member States to give tax authorities access to data collected under anti-money laundering legislation. As of 1 January 2018, national tax authorities will have direct access to information on the beneficial owners of companies, trusts and other entities, as well as customer due diligence records of companies. The new arrangements should give a major boost to tax authorities in the fight against the types of structures highlighted in the 'Paradise Papers'. Pierre Moscovici, Commissioner for Economic and Financial Affairs, Taxation and Customs, said: *"We want to give tax authorities crucial information on the individuals behind any company or trust. This is essential for them to be able to identify and clamp down on tax evaders. To do this, tax authorities will now have access to anti-money laundering information."* The new amended rules, enshrined in the Directive on Administrative Cooperation (Directive 2011/16/EU), will give tax authorities much-needed access and enable them to react quickly and efficiently to cases of tax evasion and avoidance. (*For more information: Johannes Bahrke – Tel.: +32 229 58615; Patrick McCullough – Tel.: +32 229 87183)*

2018 European Capitals of Culture: Leeuwarden and Valletta

From 1 January, Leeuwarden (The Netherlands) and Valletta (Malta) will hold the title of European Capital of Culture for one year. The opening celebrations for Valletta will take place from 14 to 20 January across the city, inspired by the traditional Maltese *festa* (village feast). Commissioner for Education, Culture, Youth and Sport, Tibor **Navracsics**, will attend the official opening ceremony on 20 January. In Leeuwarden, celebrations will kick off on 26 and 27 January, with artistic installations and performances by professional and amateur artists across the city, and museums opening their doors to visitors throughout the Friesland region. European Commission First Vice-President Frans **Timmermans** will attend the official opening ceremony on 27 January. Commissioner **Navracsics** said: *"The European Capitals of Culture help bring communities together through culture with long-lasting benefits for the respective cities, their citizens and their economies. 2018 will be a special year as it is the European Year of Cultural Heritage, and both Capitals have included many projects promoting cultural heritage in their programmes – contributing to highlighting the role of culture in building a European identity. I wish Leeuwarden and Valletta every success for the coming year."* The European Capital of Culture was initiated by the then Greek Minister of Culture Melina Mercouri in 1985 and has become one of the most high-profile cultural initiatives in Europe. The cities are selected on the basis of a cultural programme that must include a strong European dimension, promote the participation and involvement of the city's inhabitants and contribute to the long-term development of the city and its surrounding region. A full press release is available online. *(For more information: Nathalie Vandystadt – Tel.: +32 229 67083; Joseph Waldstein –*

Tel.: +32 229 56184)

Novel Food: new regulation adding to the food variety present on the EU market enters into force

The new Regulation on Novel Food is applicable from 1 January 2018. The regulation brings significant improvements and changes to the novel food authorisation procedure. It includes an expanded definition for novel food to account for innovation and technology advances in the food sector, a centralised EU-wide authorisation system of novel foods and of traditional foods from third countries, a list of all authorised novel foods in the EU, and data protection provisions for the applicants. European Commissioner for Health and Food Safety Vytenis **Andriukaitis** welcomed the new regulation: *"These changes will make the process of authorising and placing novel food on the European market simpler, quicker and more applicant friendly, while fully ensuring food safety. We hope that this will add to the variety already present on the EU market of healthy, nutritious traditional and innovative foods."* Before being authorised all novel foods must be scientifically proven to be safe to public health. The authorisation then sets out the conditions for their use, their designation as food and labelling requirements. For more information on the new Novel Food Regulation see here. (*For more information: Anca Paduraru – Tel.: +32 229 91269; Aikaterini Apostola – Tel.: +32 229 87624)*

Aides d'État: la Commission approuve un régime français d'aides d'État en faveur de l'infrastructure ferroviaire pour le transport de marchandises

La Commission a autorisé, en vertu des règles de l'UE relatives aux aides d'État, un régime d'aides français en faveur de la création et de la modernisation d'installations terminales embranchées (ITE). Le régime est doté d'un budget global de 60 millions d'euros avec l'aide prenant la forme de subventions non remboursables. L'objet du régime est de soutenir le financement partiel de la construction, de la rénovation, de l'extension et de la remise en service d'embranchements ferroviaires privés pour le transport de marchandises. Une installation terminale embranchée privée est une voie ferrée dont le propriétaire est une entreprise commerciale, qui l'utilise pour distribuer ou réceptionner des chargements. Les embranchements ferroviaires permettent la desserte ferroviaire directe des sites d'activité économique et évitent les ruptures de charges qui se manifestent par un stockage temporaire ou un transbordement des marchandises sur un site intermédiaire. La Commission a estimé que la mesure favorise le transfert du fret de la route vers le rail, en accord avec les objectifs de la politique commune des transports visant à encourager les modes de transport moins polluant. Par conséquent, la Commission a conclu que la mesure respecte la réglementation de l'UE en matière d'aides d'État. Plus d'informations seront disponibles dans le registre des aides d'État sur le site internet de la DG Concurrence sous le numéro SA.48483. *(Pour plus d'informations: Lucía Caudet – Tel. +32 229 56182; Maria Sarantopoulou – Tel.: +32 229 13740)*

Declaration by the High Representative / Vice-President Moghernini on behalf

of the EU on the situation in Iran

Yesterday the following Declaration was issued: *"The European Union is closely following the ongoing demonstrations in Iran, the increase of violence and the unacceptable loss of human lives. For the EU, human rights have always been a core issue in our relationship with Iran. Peaceful demonstration and freedom of expression are fundamental rights that apply to every country, and Iran is no exception. In the last days, we have been in touch with the Iranian authorities. In the spirit of frankness and respect that is at the basis of our relationship, we expect all concerned to refrain from violence and the right of expression to be guaranteed, also in light of the statements made by the Iranian Government. The European Union will continue to monitor the situation."* (*For more information: Catherine Ray – Tel.: +32 229 69921; Carlos Martin Ruiz de Gordejuela – Tel.: +32 229 65322; Lauranne Devillé – Tel.: +32 229 80833*)

ANNOUNCEMENTS

High Representative / Vice President on official visit in Cuba

The High Representative / Vice President Federica **Mogherini** will travel to Cuba on 3-4 January, reconfirming the strong EU-Cuban relationship. During her visit, she will meet with government representatives, with a view to an ambitious and swift joint implementation of the Political Dialogue and Cooperation Agreement (PDCA) between the EU and Cuba. Together with Cuban Foreign Minister Bruno Rodriguez Parrilla she will also prepare for the first EU-Cuba Joint Council meeting at ministerial level within the framework of the PDCA. The Political Dialogue and Cooperation Agreement entered into provisional application on 1 November 2017. This landmark agreement – the first ever between the EU and Cuba – constitutes the new legal framework for EU-Cuba relations. It foresees an enhanced political dialogue, improved bilateral cooperation and the development of joint action in multilateral fora.*(For more information: Catherine Ray – Tel.: +32 229 69921; Daniel Puglisi – Tel.: +32 229-69140)*

Upcoming events of the European Commission (ex-Top News)

Declaration by the High Representative on behalf of the EU on the situation in Iran

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Benoît Cœuré: Interview with Caixin Global

Interview with Benoît Cœuré, Member of the Executive Board of the ECB, conducted by Liwei Wang on 17 December and published on 30 December 2017

I. Europe

Mr Cœuré, how is Europe's recovery progressing?

We don't see it as a recovery anymore, but as an expansion. The annual growth rate in the euro area is the strongest for ten years. We expect a GDP growth rate of 2.4% for 2017, which by European standards is quite high. Business and consumer confidence are at their highest levels for over 17 years, according to the November reading of the European Commission's Economic Sentiment Indicator. Seven million jobs have been created in the euro area since mid-2013.

Growth today is not only very strong, but also very broad-based. The breadth of the expansion in terms of countries and sectors is greater than at any point over the last 20 years. The expansion is also more sustainable as it is driven by domestic demand and an improving labour market, and it is less reliant on credit.

We have definitely left the crisis behind us. Europe is back!

How does it compare to the United States?

In 2016, the euro area grew faster than the United States. For 2017 and 2018, it is too early to tell, but the growth rates should be about the same. For example, the euro area flash manufacturing and composite output PMIs for December are at 60.6 (the highest since the series began in June 1997) and 58.0 (a 82-month high) respectively, comparable or somewhat higher than the level in the United States, Japan or the United Kingdom.

Is unemployment still a major issue?

Unemployment is still an issue. At 8.8% in October, the euro area unemployment rate is the lowest since early 2009, but the rate still varies considerably across the euro area. Countries such as Germany or the Netherlands have practically full employment, but others, e.g. France and Italy, still have some catching-up to do.

In several Member States, such as Spain and Ireland, there have been bold labour market reforms, which are now yielding tangible benefits. This sends an important message: when European countries use a period of growth to implement further reforms, it works.

While Europe needs to rebuild fiscal buffers now, as Mario Draghi recently mentioned, the United States is embarking on a major tax reform, involving major tax cuts. How do Europeans see tasks on the fiscal side?

In Europe, there are two different discussions. One is on the level of the deficit, or “fiscal stance”, the other on the composition, i.e. the quality of public finances.

In all countries, there is scope to make public finances friendlier to growth, in particular to reduce non-productive public spending and cut distortionary taxes.

But not many countries have fiscal space, because their public debt is too high. Their priority should be to use the current economic expansion to rebuild fiscal buffers, so that when the next crisis hits, they can use fiscal policy to react to it. In the meantime, they can still improve the composition of their public finances.

There are a few countries, including Germany, that do have fiscal space. These countries should use that space to prepare for the future, although it is not for the ECB to tell them how to do it.

So Europeans need to carry out their own fiscal agenda, not follow the US?

It’s not for the ECB to comment, but I don’t see a great appetite among European leaders to follow the US example at the current juncture.

What are the risks to Europe’s economy?

Risks are broadly balanced in our view, with positive risks coming from the euro area and negative risks coming from outside. The latter include geopolitical risks and risks stemming from emerging market economies.

At a deeper level, we see risks to global growth resulting from the erosion of support for international trade and openness. Europe clearly remains committed to openness and international cooperation. We are open for business. We don’t agree with those countries which want to curb international trade.

And let me add a more political remark. In a world which is more uncertain and volatile than ever, Europe can project itself on the world stage and work jointly with China to provide stability.

What are the positive risks from Europe?

History tells us that people tend to underestimate economic downturns and, likewise, in an upturn, there is a risk of underestimating the strength of the economy. For instance, we see very positive dynamics stemming from investment and domestic demand, and this creates positive multiplier effects.

II. Central banking

With the recovery turning into an expansion, it seems we are still not quite seeing monetary policy normalisation (QExit and rate rises)?

Indeed, our monetary policy will remain very accommodative. It has a single objective, which is to bring euro area inflation back to a level below, but close to, 2% over the medium term. Because inflation is still not at 2%, we will maintain an ample degree of monetary accommodation.

The strength of the recovery gives us increasing confidence that inflation will return towards 2% in a sustainable manner. That led to our decision to recalibrate our monetary policy support. We decided in October to reduce our monthly net asset purchases from €60 billion to €30 billion from January until at least September 2018, and longer if needed. By halving the monthly asset purchases we are recognising both the strength of the recovery and our greater confidence in the inflation outlook.

The euro area is not alone among major economies in having inflation that is kind of muted. Any fundamental reasons for this?

I think that we need a degree of humility here. There are many things we don’t understand very well, for example the impact of technology on industrial organisation, wages and prices. Technological change certainly is a common explanation for low inflation in all advanced economies.

Low productivity gains are also one explanation for the sustained weakness in wages across advanced economies, which in turn also have an impact on inflation.

There are factors specific to Europe as well, in particular high unemployment. Both the United States and Japan are close to full employment, while Europe is not. Europe is lagging behind the United States and Japan in the business cycle and still has some slack to absorb before reaching full employment. Many of the newly created jobs are based on part-time or fixed-term contracts, which dampen the prospect of rapid wage increases. That helps explain why inflation will only slowly move back towards 2% and why we still need ample monetary accommodation.

European financial markets already show a lot of frothiness, just like in the US.

In Europe, we see frothiness in some market segments or asset classes, but nothing that would be a concern at euro area level and would call for a monetary policy reaction.

Local issues call for local solutions, separate from monetary policy, or what we call macroprudential measures. A very recent example is the decision last Friday [15 December 2017] by the French macroprudential authority, the High Council for Financial Stability, to propose a measure to limit the exposure of large French banks to the most indebted companies, given concerns related to corporate debt growth in France. The macroprudential toolbox is being used. It has been used in several euro area countries, such as in Ireland in the case of mortgages.

The ECB is monitoring this closely. In principle we have the possibility to top up national measures, although we haven't done so yet.

Your colleague, Yves Mersch, said earlier this month: "Nourishing a market belief that the exit might be permanently postponed could exacerbate the potential cliff effects". An official from the People's Bank of China (PBOC) made remarks along the same lines recently, warning of the risk of markets gaming monetary policy while rates remain low. How do you see central banks' interaction with markets?

There is always a risk of central banks being led by financial markets instead of leading them.

We can't ignore market reactions, because markets are important transmitters of monetary policy. This is also why we place importance on communication and lay out as clearly as possible our reaction function in our forward guidance. But we have to keep in mind that the ultimate yardstick for our action is inflation. We are not targeting financial asset prices.

Given the strength of the expansion, we are increasingly confident that inflation will rise towards 2% over the medium term. This justifies a gradual and cautious recalibration of monetary policy. Markets have to understand that QE will not last forever.

Could it be a bit behind the curve?

We have flexibility to react both ways. Given what we see in the economy, I believe that there is a reasonable chance that the extension of our asset purchase programme decided in October can be the last. But the Governing Council of the ECB has also made it clear that the programme can be kept in place for longer, should inflation disappoint on the downside. And if inflation turned out to be higher than currently expected, we would have plenty of instruments with which to react.

The generation of central bank governors who handled the crisis has now

either retired or is close to retiring. How do you regard what they've done?

The main lesson from this crisis is that you have to think outside the box, be innovative, while at the same time staying within your political mandate. It's a very delicate balance, but the Federal Reserve, the Bank of England and the ECB have all done it and succeeded.

Central bankers in some circumstances have to be bold and fast, but they also have to do things in a politically and legally acceptable manner. That's what they've done, and that is also something to remember for the future.

Can central bankers push politicians to act if they are slow to act or make reforms?

Central bankers have no mandate and no legitimacy to push politicians. At the same time, they have a duty to speak their mind and publicly state what they think is necessary for economic policy.

III. China

Governor Zhou of the PBOC is also to retire (soon)? Looking from the outside, how do you see him?

What I particularly notice is Governor Zhou's international role. I've listened to him many times in Basel, Washington and other places. He's one of the most respected governors around the table. When he takes the floor, everyone stops to listen to him, which is not always the case in international meetings.

What has always struck me is that he expresses China's position in a very clear way but he also aims to move the discussion on, seeking a consensus. That's extremely valuable in an international discussion.

For me, the very thoughtful and analytical way he has of addressing issues is a very important contribution. He always takes the time to explain complex issues, including for instance recent developments in China's financial system, which can be quite complex for outsiders to understand. He has a very clear and concise way of explaining things, making discussions more constructive.

How does the global central banking community view the PBOC's role in recent years?

Over the last ten years or so, there has been a clear evolution. The PBOC has been engaging more and more with the international community and its central bank counterparts, in line with the changing role of China in the global economy.

From an ECB perspective, I can say that we now have a relationship with the PBOC that is as broad and deep as it is with a core group of other central banks, such as the Federal Reserve, the Bank of Japan, the Bank of England and maybe a few others. This includes discussions on financial markets, monetary policy, payment systems, to name just a few. The PBOC is part of that core group.

The ECB in June invested a small amount of foreign reserves in the renminbi. Why? Any plans ahead?

The amount is equivalent to €500 million, roughly 1% of the ECB's foreign currency reserves. We sold US dollar reserves to do this. At the end of 2016, the ECB's reserves consisted of 83% US dollars and 17% Japanese yen. We also have a €45 billion/RMB 350 billion bilateral currency swap agreement with the PBOC.

Both initiatives are an acknowledgement of the growing international role of the renminbi and a first step towards a better understanding of how the Chinese monetary and foreign exchange markets work.

I'm quite sure that there will be further steps in the future. But central banks are conservative by nature. This is a long-term process.

How do you see the prospect of RMB internationalisation?

To understand the international monetary system, one needs to take a very long-term perspective, even if the rise of China on the global economic stage has been much faster than anything we've seen before.

It's quite evident to me that the renminbi will eventually become a major international currency, and I personally believe that a multi-polar monetary system is good for the stability of the global economy. For the renminbi to achieve that status, further steps will need to be taken, including a further opening of the capital account, the pace and modalities of which are for the Chinese authorities to decide.

IV. Digital currency and fintech

What do you think of Bitcoin?

What we are witnessing today is clearly a bubble, made possible by scarcity and by an expected sequence of gains which investors believe will be sustained, irrespective of the fundamentals. That is the definition of a bubble.

Bitcoin is not a currency. Investors should not believe that they will be able to use it as a means of payment. It is a speculative investment. There is a risk of large capital losses which investors should be aware of.

So the main concern related to Bitcoin is not a monetary one but one that relates to investor protection, and possibly also to tax evasion, money laundering and criminal finance.

With two American exchanges (CBOE and CME) introducing Bitcoin futures, how do you see the policy for it going forward?

The ECB is not a securities regulator. Regulators worldwide have recently warned investors repeatedly about possible losses. In Europe, the Fourth Anti-Money Laundering Directive, adopted by the European Council and the European Parliament last Friday [15 December 2017] requires exchange platforms and wallet providers to report suspicious transactions and identify owners of digital currencies. I’m quite sure that further steps will be taken to regulate this market.

How do you see the prospect of central bank digital currencies?

This is an area where central banks tread with great caution, because different jurisdictions face different trends in the demand for cash, and because we have to assess the full impact of any change in the way we operate, both for the citizens of our countries and for the structure of financial intermediation. In that respect, I would make a clear distinction between wholesale and retail applications.

Starting with wholesale markets, we see that distributed ledger technology (DLT) has a lot of potential for market infrastructures. All major central banks are looking into it. The Committee on Payments and Market Infrastructures (CPMI) of the Bank for International Settlements, which I chair, published a report on it in February 2017.

The ECB has undertaken a pilot project with the Bank of Japan in this area. We concluded that the technology is not yet mature enough to migrate large-value payment systems – in our case, TARGET2 – to a DLT-based infrastructure, but we’ll continue to study it carefully.

The question will arise as to whether central banks could at some point provide central bank money to financial market infrastructures in a digital form. We are still in the early stages of that discussion, but it is a relevant one.

Is this similar to the real-time gross settlement (RTGS) renewal programme under way in the United Kingdom?

Indeed, the Bank of England sees potential benefits from DLT for future RTGS systems, although, like us, it believes that this technology it is not yet sufficiently mature. But we will continue to look into it.

As for the retail side, that is, central bank digital currencies replacing banknotes and coins, we are much more prudent. First, there are only a limited number of countries where demand for cash is clearly on a downward trend.

Sweden is faced with such a situation, but in the euro area we are not. We are therefore not being pushed to go in that direction.

Second, we also have to consider the implications for security and trust in the currency. Today, we invest a lot of resources in fighting the counterfeiting of banknotes. What would fraud, and fraud combat, look like in an environment with a digital currency?

And third, we want to make sure that we fully understand the long-term consequences for the financial system. Today, most of the money used in the economy is created by banks. How would digital money affect the role of banks as financial intermediaries, and would it make the financial system more, or less, stable? These are issues on which much more reflection is required, hence our great caution.

How does the ECB's new TARGET instant payment settlement (TIPS) initiative factor into this?

This is actually my last point. A lot of the current interest in central bank digital currencies, or private digital currencies, stems from the fact that people expect them to be faster and cheaper than existing means of payment. These expectations can be easily met by upgrading existing payment systems.

That's true for domestic payments, and it is exactly what we're doing in Europe with TIPS, an infrastructure allowing for 24/7, 365-day instant payments. TIPS will go live in November 2018.

It's also true for cross-border payments. But here we are less advanced. One reason why Bitcoin is popular is because it allows for cross-border payments that are cheaper and faster than with existing infrastructures. The international community has a duty to get together and act to improve the speed and cost of cross-border payments, to avoid being taken over by technologies such as Bitcoin, which entail risks for their users, not to mention possible fraud and crime.

In China, private sector non-banks are also becoming disruptive players in the payment space.

In Europe, we have a new legal framework for payments entering into force in January 2018, called the Second Payment Services Directive (PSD2).

Under this revised framework, payment service providers (PSPs) can be non-banks and will have access to the bank accounts of their customers, but at the same time they will be regulated, not only in terms of financial stability but also in terms of data use and privacy. Opening up the payments market is good for consumers and it will spur innovation, but it should not come at the expense of privacy and security.

How do you see technology and tech firms' impact on banks and the financial structure?

In a nutshell, fintech creates opportunities for non-bank actors to become players in the financial services sector. It has the potential to significantly destabilise the banking system or at least to erode its profitability.

Bear in mind that PSD2 is designed to introduce more competition by requiring banks to share data that they today use to cross-sell financial services. With access to such data, fintech companies could for instance increasingly capture the value formerly retained by banks.

I see two broad scenarios. In the first one, banks rise to the challenge, cut costs, internalise new technology, including by purchasing fintech companies, and gain new sources of revenue. This scenario crucially assumes that banks are profitable enough to carry out the necessary technological investments.

In the other scenario, banks fail to internalise fintech and run the risk of becoming mere platforms, with all the value being created outside. This could happen in particular if digital giants, who already have access to large amounts of customer data, start targeting parts of the banking value chain, ultimately crowding banks out of large swathe of financial services.

Firms and households may then benefit from new financial services and products, but the stability of the banking system would be at stake, and regulation would need to be carefully reviewed to close any loopholes.

What role can central banks or regulators play in this?

We need to stick to a very simple principle: equivalent activities should be regulated in an equivalent way. For instance, if we see non-bank players starting to provide credit, they will need to be regulated in an equivalent way, although not necessarily the same way, giving different deposit-taking restrictions.

And since all these activities are cross-border, we need international coordination. The right forum for this discussion is the Financial Stability Board, where Chinese authorities are active participants.