[Valdis Dombrovskis, Vice-President of the European Commission Keynote speech at the American Enterprise Institute Conference “Transatlantic cooperation – key for jobs and economic growth” 20 April 2017 – Washington D.C.]

Ladies and gentlemen,

First of all, let me thank you for this opportunity to speak here, at the American Enterprise Institute.

Our conversation takes place at a time of change.

I believe that we can withstand any change as the partnership between the European Union and the United States is strong.

It is strong because our partnership is built on shared principles and values: freedom, human dignity, democracy, rule of law, and open economies.

We are natural as well as traditional allies.

Our transatlantic ties connect the largest and wealthiest markets in the world. Together, we account for 40% of the world’s GDP, over half of global Foreign Direct Investment, and almost one third of international trade flows. We have company plants on both sides of the Atlantic often integrated *together* into wider networks of global supply chains.

Despite the emergence of other partners, European companies in the US employ millions of American workers and are the largest foreign source of on-shored jobs in America. Similarly, US companies in Europe employ millions of European workers. The US and European foreign affiliates directly employed about 8.7 million workers in 2015 – and the figure keeps rising.

Make no mistake: together, Europe and the United States are still the backbone of the world economy.

This political and economic weight has been achieved because the European Union and the United States have shaped it together. We are a coalition of the like-minded. What would happen if one decides to depart from the current order? We do not know.

A Japanese haiku says ‘A butterfly flaps its wings – and a tornado starts’.

Ladies and gentlemen,

Now that we face new challenges to global stability and economic prosperity, our tried and tested partnership is once again the most effective way to overcome them.

The first challenge is getting the politics of globalisation right. Today many people feel as if globalisation has benefited only a lucky few. Many feel left behind. It is the case both in Europe and in the US. We need to make sure that economic benefits are shared among all, including the most vulnerable members of our societies. This is why, in the EU, we focus on making growth more inclusive. I will come back to this later.

Globally, we have to work to ensure tax fairness. This has become a political imperative. The European Union is at the forefront of the international effort to fight tax evasion and tax avoidance. We want to enforce the OECD Action Plan to fight Base Erosion and Profit Shifting. We want to make sure that international companies pay their taxes where their real economic activities take place.

Second is the security challenge. We need joint actions to fight terrorism and terrorist financing. In Europe, we have to tackle security and defence risks caused by tensions and military conflicts in our neighbourhood – be it in North Africa, the Middle East or Russian aggression against Ukraine. Changing borders by military force is not acceptable in the 21st century. This is why the EU and the US should continue to support Ukraine's security and economic reform efforts.

Third, Europe is going through turbulent times. I am convinced that we can handle our challenges head-on. As in the past, Europe will prove remarkably resilient. But it is true that we have a lot to stomach: the consequences of the refugee crisis, a rise of populism in some Member States, and Brexit.

On Brexit, the European Union will act as one to preserve its interest. Our first priority will be to minimise the uncertainty caused by the United Kingdom's decision for our citizens, businesses and Member States. The EU stands ready to launch the negotiations quickly and make sure that the withdrawal process is orderly. Through negotiations, we need to build a new partnership, based on fair terms. In any case, the UK will remain the neighbour of the European Union. We have a strong mutual interest in close and fruitful cooperation.

The remaining 27 Member States are determined to stand together. By acting jointly we can address our challenges more effectively, be it in the fight against terrorism, strengthening security, dealing with the consequences of the migration crisis or strengthening the economic recovery of the bloc.

Where matters of the EU's economic and financial stability are concerned, these fall directly within my areas of responsibility.

Over the last decade, we have profoundly reformed economic governance in the European Union. Thanks to these reforms, we can now focus on growth along three clear priorities:

- investment;
- pursuing structural reforms; and
- responsible fiscal policies.

We came out of crisis slower than the US, but the growth momentum in the EU is picking up. We are in the fifth year of our recovery. For the first time since the crisis, all EU Member States are expected to grow. On average, we expect the EU growth to be 1.8% of GDP both this year and next.

Growth is broadening gradually across sectors. Private consumption is acting as the main driver of growth. Our recovery is being supported by the accommodative monetary policy and a broadly neutral fiscal stance.

Certain external factors, such as the low oil price, have been helping as well, although the oil price is forecast to increase in the near future.

Unemployment is at its lowest level since the crisis. Public finances are improving as well.

Of course, it is difficult to discuss EU economy without touching upon Greece. So, let me say a couple of words on Greece. While still under the financial assistance programme, Greece is also set to grow this year. Now it is important to conclude the second review of the programme as soon as possible to ensure that the Greek economic recovery continues and that Greece can return to markets in 2018. In this regard, we wish to count on decisive support from the US government when it comes to the IMF’s participation in the programme.

Investment growth continues to improve. The historical level of investment in the EU has been between 21 and 22% of GDP. After a drop to 19.4% in 2013, it is now gradually recovering. However, there is a remaining ‘investment weakness’. It is particularly important to attract and facilitate private investment, as it represents 90% of total investment.

The Investment Plan, which the Commission launched two and a half years ago, is already showing tangible results. The European Fund for Strategic Investments (EFSI) currently has unlocked more than 180 billion euros in both public and private investment to support projects across all 28 EU Member States. Given its success, the Commission has decided to extend EFSI from 350 billion euros targeted initially to 500 billion by end 2020. Besides, more should be done to attract investment by improving the business environment in the Member States. For example, in several Member States reforms in insolvency laws or justice systems could help to reduce the natural risk-aversion that often characterises European entrepreneurs.

This brings us to the need to foster structural reforms in Member States. Our experience shows that countries that have implemented ambitious structural reforms are now bearing fruit and growing stronger. Most progress is made in the areas of the financial sector and labour market policies. Further reforms need to focus on opening product and services markets, boosting active labour market policies to help people find jobs and modernising public administrations. In several countries, low productivity growth and divergence in productivity performance across firms and sectors are holding back competitiveness.

I note that, earlier this month, the American Enterprise Institute hosted a presentation by Christine Lagarde with a similar message: *productivity* is the key to higher incomes and rising living standards, to create “a larger piece of pie for everyone”. And there are no shortcuts to harnessing the power of productivity.

On fiscal policies, the EU countries are gradually reducing public debt and deficit levels. The average budget deficit in the euro area is expected to go down from 1.7% of GDP last year to 1.4% this year. Public debt is also on a downwards trajectory, though still remaining high – at around 90% of GDP in the euro area.

This decrease in deficits reflects lower interest spending due to exceptionally low interest rates. It also reflects further improvements in the labour market: more people are paying taxes and contributions, and fewer depend on social transfers.

However, public and private debt levels remain very high in several Member States. This makes them vulnerable to external shocks. This is why we emphasise the need of using this time wisely to keep their debt trajectories on downward paths and reinforce their resilience. It would send a strong signal to markets and investors alike.

While pursuing these policies, we are committed to making our growth more inclusive. This is vital both for economic and political reasons. We should, for instance, reform tax systems and better target social benefits. We advise countries to shift the tax burden away from low-paid labour to other tax bases, which are less detrimental to growth. We also propose a better use of active labour market policies. There is also a need for more support to education and training to avoid a mismatch between skills and labour market needs.

Going back to the overall picture in the EU, we see that our policy strategy of boosting investment, implementing structural reforms and conducting responsible fiscal policies is working. Now we need to stay the course.

Of course, in the context of Brexit, we need a deeper reflection on the next steps for the European Union. That’s why, in March, the European Commission presented a White Paper on the Future of Europe, outlining five possible scenarios of the EU going forward with 27 Member States. And at the end of May, we will publish a reflection paper on completing Europe’s Economic and Monetary Union.

Moving to the financial sector, we need a strong and diverse financial sector to finance the real economy.

In recent years, the EU has acted jointly and decisively to establish and apply common standards for Europe’s banks. Hence today, our banks are stronger and better capitalised than before. And we are acting to address the remaining pockets of weakness.

One example is high levels of non-performing loans in some of the European countries and banks. We are taking action. Member States are following EU recommendations to reform insolvency proceedings and to accelerate the work of non-performing loans. The EU’s single supervisor – the European Central Bank – is requiring banks to manage and address high levels of non-performing loans. NPLs are also increasingly being sold on secondary markets. The EU finance ministers have just made addressing non-performing loans their priority, and agreed to develop a common EU strategy.

To further reduce risks in the financial sector, the European Commission proposed banking legislation to transpose internationally agreed standards into EU law. Similarly, to complete the Banking Union we have proposed the last major building block, a European Deposit Insurance Scheme.

Meanwhile, work continues at full speed to build a deeper and more integrated market for capital in the EU – the Capital Markets Union. The project was born as a response to what we saw during the crisis: bank financing became scarce, while alternative sources of financing were hardly available. Many firms were left with no funding at all, worsening the overall contraction of the EU economy.

This project is, thus, about developing European capital markets to make them fit the needs of our firms – of our “real economy”. However, new challenges – not foreseen from the onset – make our task more complex. The prospect of Europe’s largest financial centre leaving the Single Market makes this project more challenging, yet more important and more urgent.

A lot has already been achieved. I am talking about simplified prospectus requirements for firms tapping public markets and revised rules to support venture capital and social enterprises. We also proposed new rules on securitisation, which are currently under scrutiny by the European Parliament and Member States.

Now, in light of new political and economic reality, we need to re-calibrate our project and raise the level of its ambition. For example, we want to be more ambitious in the areas such as Fintech and sustainable or green finance.

We will also propose new rules on pan-European private pensions and will streamline our rules on EU passporting of investment funds.

Overall, this means that the European Union is holding up its end of the bargain: promoting stability and regaining trust for the long term, while reforming its economic fundamentals and strengthening growth in the shorter term. This is important because, just like US, Europe’s economy contributes greatly to global growth.

Now moving to international financial cooperation.

The global financial crisis shook our economies to the core. It also showed that our financial systems are inherently linked and that financial stability requires a joint effort.

Within the G20, the US and the EU have worked together to develop a common international financial governance to build global resilience. Without working jointly, we would run the risk of regulatory arbitrage and renewed instability.

There is no doubt that financial rules need to be fine-tuned to make them more growth-friendly. In Europe, we have done an assessment of the overall impact of our rules on the economy – the so-called Call for Evidence. Where necessary, we also adjusted our rules. But we are not willing to lower prudential standards. And we count on the US to stand by the same principle.

This is key to our equivalence process. Our rules on equivalence – or as it is known in the US: deference – require us to monitor continuously the adequacy of a third country's rulebook and supervision to the EU standards.

Now, why do we consider international cooperation on financial services vital? I would like to give three examples.

The recent experience showed that it is impossible to properly manage a financial crisis without an effective regulatory framework for derivatives markets. As derivatives markets are global, they also require a global framework that no country – in isolation – can deliver. Since markets move to exploit the slightest arbitrage possibility – and do so extremely quickly – no single country on its own can put in place effective individual margining requirements or requirements for central clearing. That's why Europe stands by the new framework for derivatives markets agreed by the Financial Stability Board.

Another example I would like to mention today is bank capital charges. Today, US banks have probably as many operations in the EU as the EU banks over here. The Basel framework guarantees that all these banks can operate internationally, but are still regulated and supervised to the appropriate – jointly agreed – standard. The EU stands strongly by the agreed standards. Recently, we – as a first jurisdiction around the globe – proposed legislation to mitigate market risk and to review the trading book. And while we want to get the new standards right, we stand ready to negotiate with our international partners on how to finalise the Basel III framework.

A third example is bank crisis management. For banks to operate internationally, we need the tools to deal with international banks in case of a crisis. In the Financial Stability Board, we have put together a crisis management cooperation framework that can be used when a cross-border group gets in trouble. We have had a trilateral resolution exercise with the US and the UK authorities in DC last autumn. We want to maintain and improve this cooperation. To do so, both EU and US laws need crisis management tools, which are compatible with each other. So, we are following very closely discussions on a possible modification to the Title II of Dodd Frank on the orderly liquidation authority. We hope the need for effective cooperation will be taken into account in these discussions.

Ladies and gentlemen,

The US – EU political and economical partnership is tried and tested. It is based on shared values and principles – this is the main reason why it works so well.

In troubled times, this partnership can give us an advantage in seeking common solutions for geopolitical conflicts, reinforcing economic growth and ensuring financial stability. It is difficult to imagine a global governance system without the EU and the US as pillars of the multilateral cooperation.

Laws change, governments change, the context changes… but it is important that the principles and trust binding us remain the same.

Thank you very much.