



Restoring confidence in financial systems

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Before I start, please allow me to pay tribute to a great friend of mine and a great European. This morning I received the sad news that my pre-predecessor Karel Van Miert has just passed away. Karel was a gentleman and strong source of inspiration for all of us who knew him. He will be greatly missed.

Last time I spoke at the OECD, in February, I said that the economy could not get back to sustainable growth until the banks were back in order.

We are still far away from a proper recovery and we are still debating how to restore confidence – that is a sign of how much co-operation is still needed, and a sign that the banks are not yet back in order.

I will touch on the competition aspects in a moment. But first I should make clear that I think it is absolutely essential to act on the lessons of this crisis.

We have already seen a strong display of common will among the members of the European Union that we need to improve our regulatory framework. The financial turmoil was not stopped by borders, and our regulation must take this into account.

A gap in the regulation in the U.S, can ultimately cost the jobs of workers in Latvia or Hungary. More than ever we are in the same boat.

I am very pleased about the strong steps that have already been taken to improve our financial system - including by the European Council last week. But we are not there yet! We need to stay focused and Member States need to keep working closely together to make a new regulatory and supervisory order work.

The objective in Europe has to be a cross-border regulatory and supervisory system appropriate for the Single Market and it is clear that we cannot take a nationalistic perspective.

The same arguments apply at the global level. We are not yet in a position to have a global regulatory system, but that does not absolve us from the responsibility to put in place regulatory systems around the world that are consistent and mutually reinforcing.

We must avoid nationalism, both when it is about protecting your national companies, but also when it shields national regulators from assuming their responsibilities in a broader context.

We are working hard using the means at our disposal.

First by adapting the State Aid procedures so that they could cope with state interventions to rescue banks to safeguard the financial stability. We managed this and the forceful public interventions have indeed been successful in removing some of the panic from the markets.

Temporary rescue measures are needed for short term viability. But they are not enough for viability in the long term - because they do not ensure confidence or long-term growth. That is why we have to look at deep restructuring of some individual banks.

We need to clean up the banks. The nightmare scenario is one where banks get addicted to public subsidies and governments get addicted to controlling the daily running of the banks. I can think of nothing more likely to undermine long term viability, and we need to prevent that.

Banks have to be weaned off state support and working with new business models if we want properly functioning markets.

We need to ensure that the aid is not used to prevent or postpone the painful, but unavoidable, reforms inside the banks. And we need to make sure that we protect the interests of those banks that did not get into trouble in the first place.

I look forward to European banks following in the footsteps of their US competitors who have already started paying back the government's capital injections.

I have no illusions - this will be a painful process. It will affect everyone from the CEOs to the customers. I am sure that I will not win any popularity votes this year.

But I am ready for the battle, and I take comfort in knowing that this work is absolutely key to get trust back into the markets.

Financial stability and the preservation of competitive markets are not contradictory. They are complementary objectives, which is why there is a real overlap in what we and supervisors are looking for. Competition and financial stability are not in opposition.

This was well illustrated by a comment in the Financial Times last Friday where a lawyer observed that Commission officials "are in a sense doing the work that banking regulators should be doing."

So I can confirm to you that we are working very hard to fill out our role in the path back to sound financial markets. A timely and pro-competitive restructuring of banks that received aid is my contribution to restoring confidence.

But I also sincerely hope that we get a better system in place in the future. This must be the last time banks are allowed to create this kind of mess.