

# **Which way our financial systems go (talking points)**

**Daniel Dăianu**

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# 1. A very complicated geopolitical environment

- Fragmentation of global economy, Bretton Woods institutions questioned
- The transatlantic relationship much crippled in a multipolar world
- The EU tries to save “multilateralism” via regional and bilateral trade deals (Mercosur, China, India, Australia, Canada, etc.)
- G-7 and G-20 still relevant; large global imbalances are back
- Financial instruments used as weapons (tariffs, sanctions, currency wars, crypto assets....-geopolitical financial warfare)
- Very high uncertainty and risk aversion
- Security considerations take precedence....resilience vs efficiency
- Defense expenditure up (deficits and public debts): guns vs bread
- AI: benefits, but also huge risks

## 2. Global macroeconomic scene is worsening

- Stagflation is looming (The Middle East War impact), The IMF Spring outlook may already be outdated
- Budget deficits may rise again...but fiscal space is quite limited
- A new inflationary bout
- Supply chains strained again
- Central banks should be cautious in raising policy rates swiftly, as this is a supply-side shock

# 3. A new wave of financial deregulation?

- Lessons of the Great Recession crisis seem to have receded (a new credit cycle; J. Dimon: credit conditions loosened...)
- Banks ask for loosening of capital and liquidity requirements (competition with American banks is again put forward in the EU)...Basel III
- NBFIs ' share in funding has risen greatly. The regulation of private (non-bank) credit is inadequate...all types of finance need regulation (the risk of contagion)
- ECB sees private credit as a risk to financial stability (Luis de Guindos)

## 4. Central banks (CBs) independence (FED, NPB,...)has been under fire

- In the background is the rise of authoritarian temptations
- and fiscal dominance (large public debts, budget deficits, higher interest rates)
- CBs may have to raise policy rates because of the inflationary bout...the effects of the ME war will persist
- Reforms at Fed once a new chairman is appointed (Kevin Warsh...ex: measuring inflation)

# 5. Crypto assets are a threat

- After the Great Recession, the wish to decentralize finance: the trust issue
- Most of them are highly speculative
- Stable coins endanger monetary policy transmission (and monetary sovereignty); create parallel circuits
- Stable coins are not money (BIS, singleness, elasticity, integrity) and can harm the financial system as a whole....CBs may likely have to stand behind entities that issue them + deposit insurance schemes; stable coins could trigger a crisis...competition among stable coins (free banking)
- European banks contemplate issuing stable coins. Competitive forces at play (fear of American issuers of stable coins)
- Tokenization is a proper way to use new technologies (BIS)
- CBDCs are inevitable and will trigger a new type of currency competition

# 6. AI and finance

- AI can bring great benefits, but entails huge risks
- AI and a “huge productivity shock” (Kevin Warsh) is an open issue
- It can harm banks by revealing vulnerabilities...(the Mythos moment, The Economist, April)
- It can enhance contagion and a financial crisis
- AI needs to be regulated and CBs, ESRB,FSB BIS, national regulators need to coordinate closely

# 7. EU finance

- For the euro to be a stronger reserve currency the euro area needs EDIS, a safe asset, more overall integration (single market, energy, etc)
- The capital and investment union needs EDIS, safe asset
- New countries may join the euro area (after Bulgaria): Hungary, Romania, provided they respect accession criteria

**Thank you!**