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Strengthening Capital Markets as a prerequisite for the EU's economic recovery

The development of the EU single market is without doubt one of the greatest achievements of Europe. Despite the progress achieved, Europe and especially its capital markets are still far from the finish line. However, strengthening capital markets will be an important element in ensuring a full recovery from the Covid-19 crisis – and we should seize the momentum to do so.

In their early attempts to create a Capital Markets Union (CMU), the EU leaders aimed for the "low hanging fruits", such as the review of the Prospectus Directive or STS securitisations, while the underlying issues remained unresolved: Europe's economy is still too dependent on bank financing, European citizens still prefer to keep their savings in low-yielding bank accounts and the EU's capital market is still too fragmented to be called a capital markets union.

Europe's inability to stimulate entrepreneurship and to be attractive for innovative, growth-oriented companies is a consequence of its focus on regulation, instead of playing offense and supporting digital and technological advancement. Meanwhile, the power of US and Chinese tech giants is growing in Europe every day.

Recognizing this, the European Commission initiated in late 2019 a High-Level Forum consisting of 28 experts from a wide spectrum of professional and national backgrounds. This working group produced a set of very practical, very clear recommendations to improve the business environment, the market infrastructure, to foster retail customers participation and to address cross-border aspects such as taxes, insolvency and supervision. All these aspects are highly welcome and will help to build our CMU.

However, the core mindset of the working group was pre-Covid-19. In light of the ongoing pandemic their recommendations have become more urgent. We must act faster and be more ambitious to secure the European recovery. So far, we have been protected from the worst, thanks to swift government and central bank action. But this relief is only temporary. We must realize that currently parts of our economies rest on monetary and fiscal crutches.

What we now need is a way to operate without them. This is a challenge and a big chance at the same time. It is a chance because rebuilding our economy leaves us no option but to ensure new financing sources and to strengthen the equity base of European businesses. Increasing the capitalization of businesses in the EU is important to recover from this crisis – it is however equally important to prepare the European economy for future crises.

When it comes to capital markets, we now must have the ambition not only to improve their operating environment, but to create a Capital Markets Union that truly covers our tremendous financing needs. This will be even more necessary when we tackle our biggest challenge – climate change – by financing new and sustainable ways of growth and prosperity. Going forward, this defines a couple of important priorities: first and foremost, capital market finance must become a true option for SMEs.

Therefore, we need to create a full level playing field between bank finance and market finance. As long as it is tax-wise or convenience-wise much easier to rely on loans, no significant moves can be expected. Tangible incentives for raising private and public equity must be introduced not only for SMEs themselves but also for institutional investors like banks and insurances. Second, EU-savers have to be motivated to put parts of their savings to better use via the capital market.

Here we need concrete material incentives, such as easier and wider access to financial instruments and attractive taxation. Of course, this requires every member state's full commitment to adapt taxation rules with a clear long-term objective to create a coherent, capital market friendly tax environment throughout the entire single market.

In the upcoming months we need bold political decisions on the national and the EU-level. The current situation has created the momentum to take these decisions and to deepen European integration. The banking community is ready to support such decisions, because a truly integrated capital market will serve all of us, from consumers to small businesses to global champions made in Europe – including banks ●