FOSTERING LONG TERM PRODUCTIVE INVESTMENT

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Reforms, public financial management, tax compliance and sustainable investments

EU Member States are grappling with substantial long-term pressures on their public finances. The EU's Multiannual Financial Framework (MFF), complemented by the NextGenerationEU (NGEU), forms the largest stimulus package ever financed in Europe. With over €2 trillion, this package is aiding in the reconstruction of a post-COVID-19 Europe through ambitious reforms and investments that will elevate productivity and growth. Public financial management reforms together with reforms addressing tax avoidance and compliance are also key to increase investment opportunities and reduce administrative burden for all businesses.

With taxation being a Member State prerogative, EU tax policy focuses on eliminating corporate tax avoidance and aggressive tax planning (ATP) and enhancing cooperation between tax administrations. The EC communication on Business Taxation for the 21st Century[1] notes that corporate tax avoidance costs EU Member States 35-70 billion euros annually[2]. The Commission has drawn attention to ATP risks in the context of European Semester country specific recommendations (CSR)s and Recovery and Resilience Plans (RRPs)[3].

The Technical Support Instrument (TSI) has gone further and been instrumental in assisting Member States in overhauling their tax policies and revenue administrations to collect taxes fairly, sustainably, and efficiently. It has also extended support to EU Member States in modernizing their public financial management and expenditure policies to achieve an efficient utilization of public funds.

Specifically to combat corporate tax avoidance, tax fraud, and tax evasion, the TSI has backed 17 reforms in 11 Member States to implement the OECD Transfer Pricing Guidelines (OECD TPG), ensuring compliance with international standards and better preparation for the Minimum Tax Directive and the proposed Transfer Pricing Directive, both stemming from the OECD/G20 global approach to curbing corporate tax avoidance by large international corporations. Thanks to the significant reduction of complexity of rules and increased tax certainty, uniform application of the Transfer Pricing brings significant benefits for all businesses that operate internationally.

Furthermore, TSI has supported 7 reforms in 5 Member States introducing Cooperative Tax Compliance Programs (CTCPs) for large taxpayers. CTCPs enable revenue authorities to promote voluntary tax compliance while building trust and legal certainty. This leads to higher budget revenues, closing existing tax gaps and expands fiscal space for investments and, at the same time reduces administrative burden of tax compliance for large businesses, by increasing communication and cooperation between companies and tax administrations.

One of the central goals of the recently revised Stability and Growth Pact is to achieve sustainable consolidation of public finances while safeguarding investments and structural reforms. Modernizing public financial management is crucial to achieving this objective, and the Technical Support Instrument (TSI) has played a pivotal role by supporting 25 reforms across 24 Member States aimed at enhancing the national budgetary performance of public funds. Several Member States have revamped their medium-term and performance-oriented budgeting frameworks, enabling more value-oriented public spending and investments.

Good management of public funds transfers to more stable sovereign debt markets, thus reduces the risks of crisis and increases the resilience of the financial sector and economy at large. 23 Member States are actively engaged in improving their green budgeting frameworks, as a means to steer public spending towards areas that align with green transition objectives.

Reforming public financial management and tax compliance increase sustainable investments.

Additionally, DG REFORM has supported 28 spending review reforms in 15 Member States. Consequently, Member States have enhanced their ability to reallocate public spending thanks to evidence-based assessments of where value for money is being generated. Aligning public budgets and investments with the objectives of the EU's green transition gives an important signal to the business community. Public and private finance need to work together.

As a result of the EU financial stimulus package and the reforms supported by the European Commission via the TSI, the scope for sustainable investments expands, enabling our economies to transition towards greater sustainability.

1. *https://taxation-customs.ec.europa.eu/system/files/2021-05/communication_on_business_taxation_for_the_21st_century.pdf*
2. *Dover, R., Ferrett, B., Gravino, D., Jones, E., & Merler, S. (2015) Bringing transparency, coordination and convergence to corporate tax policies in the European Union, European Parliamentary Research Service, PE 558.773.*
3. *https://www.europarl.europa.eu/RegData/etudes/BRIE/2023/745704/EPRS_BRI(2023)745704_EN.pdf*

HARALD WAIGLEIN

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The private sector dimension in the green transition

In the Sept. 2022 edition of this journal, I argued that the success of NGEU depends on its capacity to crowd in private investment. I also argued that reform agendas are key to this, more than investment projects. And I regretted that only few Member States specified a path towards green taxation in their Recovery and Resilience Plans (RRPs). With this in mind, I am not particularly surprised that productive investment in the EU has not caught up despite the pay-out of one quarter of RRF funds.

Private investment is typically multiple times greater than public investment. The private investment gap that undermined growth in the EU during the past decade cannot be compensated by public money, however big the funding pot. EU economic policy since the pandemic has devoted too little attention to private investment and too much to public investment and subsidies. Policy makers seem to remain traumatised by the low-growth era following the GFC, which according to the stylised fact was caused by public investment cuts necessitated by the EU's fiscal rules. And yet since 2020, when we suspended the fiscal rules and allowed unprecedented borrowing by the EU, the multiplier from public investment turns out to be smaller than assumed.

Removing obstacles to private investment is key to advancing the green and digital transition. In the EIB's annual survey, availability of skills has been the most important long-term barrier to investment since 2016. Yet RRPs devote only around € 55bn to policies for the next generation. Arguably, investment in skills takes years to generate economic returns. But had we reacted to the EIB's warnings earlier, we would already see the positive effects.

Second on the EIB's list of investment barriers is the cost of energy – a more recent development, triggered by the 2022 price shock. The policy answer is less straightforward. On the one hand, higher prices for fossil fuels encourage energy savings and investment in renewables, thus supporting EU objectives. On the other hand, in some sectors and at certain times, the alternatives to fossil fuels are scarce and expensive, potentially affecting the competitiveness of EU firms. Also, there is a risk of replacing dependency on Russian oil and gas by dependency on Chinese batteries and solar panels. Finding the right balance between the green, strategic autonomy and competitiveness objectives will be one of the main challenges of the next few years.

> **The distortion of price signals and competition in the EU energy market discourages investment.**

The price of energy is, however, only part of the story. Equally important is the uncertainty around the future evolution of prices for renewables vs. fossil fuels, combined with the ambiguity created by Russia still delivering gas to some corners of the EU. The EIB Survey shows that uncertainty around future returns is a major obstacle to green investment. The uncertainty is reinforced by subsidisation schemes, which blur the relation between costs and returns and undermine the level playing field in the Single Market. The distortion of price signals and competition in the EU energy market is a key obstacle to private investment, but policy makers' attention focusses more on the US and the IRA.

In addressing the fallouts from the pandemic and advancing the green transition, the EU has fallen victim to the erroneous belief that public spending can undo structural deficiencies. When RRPs were rushed through the Council, reform efforts in the area of the green transition appeared disappointing overall. Many of the so-called "RRF reforms" are in fact preparatory laws for investments. The positive assessment of RRPs has rubberstamped that "all or a significant subset of country-specific recommendations" are being implemented, killing pressure by the Commission and Member States to go beyond RRP reform agendas.

Public investment has long lead times. The RRF could not undo this fundamental problem. It might be even worse, given that the layers of control increase when EU funds are involved, due to accountability towards the European Parliament and EU citizens. The performance-based model provides financing quicker than in the past, but bottlenecks arise when the projects are implemented on the ground. Public investment is like a tanker ship. Private investment could be the speed boat, if the wind was blowing in the right direction and the anchor lifted.

Crowding in private investment requires coordinated action at EU and national level. First, CO_2 reduction paths have to be substantiated by comprehensive taxation of emissions in all Member States. Second, the subsidy spree and the hollowing out of competition policy has to end. New impetus should be given to the Single Market, by levelling the playing field in the area of energy. Third, productive investment should be given appropriate attention in the EU's economic surveillance. It is not yet too late to safeguard the green transition, if we acknowledge that public investment alone won't do the job.

GERASSIMOS THOMAS

Director General - DG Taxation and Customs Union - European Commission

Carbon pricing and CBAM support long-term investment needed for green transition

Through interdependent regulatory, market-based and taxation measures, the EU's trajectory to climate neutrality by 2050 is well underway. In the coming years, Member States will continue to fine-tune and implement these changes, while doubling down on complementary climate adaptation efforts.

A central pillar of our internal EU strategy and our international cooperation, carbon pricing is not only an effective instrument to curb emissions – it's also the most efficient way to drive the transition to net zero. The success of the internal EU Emissions Trading System (EU ETS) since its introduction in 2005 led to a 37% reduction in power and industrial emissions to 2021. EU GDP grew by more than 50% in the same period despite major external shocks to the economy. Its recent reinforcement should lead to a 62% reduction by 2030.

The Carbon Border Adjustment Mechanism (CBAM), now in force in its transitional phase, ensures an equivalent carbon price for certain imports to the EU compared to that paid by EU industry under the ETS - combatting the risk of carbon leakage which will be more pronounced as 'free allowances' afforded to EU industry under the ETS dry up.

We are fully aware of the need to ensure balance: our ambitious climate initiatives must preserve and promote international trade and competitiveness, including between the EU and the rest of the world. We are contributing to international initiatives such as at the WTO, the UN, the G7 Climate Club and the OECD's Inclusive Forum on Carbon Mitigation Approaches (IFCMA) to achieve just that. And it is my view that the EU CBAM achieves this balance in three ways.

First, the EU CBAM will help develop a more level-playing field on EU markets and open up investment opportunities for EU industry in the covered sectors who will no longer be undercut by imports that may have been produced under lower green standards. Overall EU production across the four biggest sectors amounts to over 350 million tonnes and employs almost 2 million people. Nevertheless, the EU is a net importer of CBAM goods: in 2022, the EU imported a total of 115 million tons of iron and steel, aluminium, cement and fertilisers products in the scope of CBAM. Most are from close partners, including in our direct neighbourhood. For example, nearly 20% of iron and steel comes from Ukraine and Türkiye combined and 11% from Canada, while 41% of cement comes from Türkiye and 15% from Algeria. While Russia was a major provider, EU sanctions and trade disruptions mean that other producers of CBAM goods will increasingly export to the EU.

As first-movers in decarbonisation, EU companies are therefore future-proofing their business models in a world where environmental provenance matters to downstream buyers and consumers. Separately, we continue to support industry in their greening efforts such as through the €40 billion EU Innovation Fund, which has already awarded €3.3 billion to 34 projects in CBAM sectors.

Second, any effective carbon price or tax paid abroad can be deducted from the price paid on import under the CBAM, kickstarting conversations in countries and regions worldwide. There are now 73 carbon pricing schemes in nearly 50 countries covering a quarter of emissions — double that in place when the Paris Agreement was signed in 2015. Several countries such as Türkiye, Ukraine, Morocco, India and Brazil, are preparing to introduce carbon pricing or energy taxation measures. Apart from their contribution to climate change mitigation, these measures will also produce significant revenues that can help accelerate those countries' own green transitions. But, as pointed out by Commission President von der Leyen, to get emissions on track the global price of carbon will need to reach an average of $85 a tonne by 2030, compared with just $5 today.

Third, CBAM represents a powerful incentive for non-EU companies and EU companies present abroad and their subsidiaries to invest in more sustainable technologies and processes. As producers align with more stringent carbon standards, they become more attractive to the EU and other markets while contributing to a more sustainable global economy.

Global cooperation on carbon pricing is necessary to fully exploit this proven mitigation tool.

Not all countries and businesses have the same starting points. EU importers will have to familiarise themselves with the new CBAM to comply with their reporting obligations. To that end, the Commission has made available considerable guidance and simplifications to support them. We are engaging with non-EU countries to explain the CBAM's purpose and added value for their climate plans and businesses. And we continue to support international partners in their decarbonisation efforts through e.g. the Global Gateway and the Green Team Europe initiatives.

Regional and national carbon pricing regimes are just the start. Global cooperation is clearly necessary to fully exploit this proven tool. The EU will continue to share its unique perspective with all partners to spur global progress that delivers clarity and certainty while driving decarbonisation.

MARKUS FERBER

MEP, Committee on Economic and Monetary Affairs - European Parliament

Boosting competitiveness - But not at the expense of fiscal sustainability

The United States' Inflation Reduction Act was probably the biggest industrial policy initiative launched in the past decades and it has put the European Union in hot water. However, this is only partially bad news. After all, the Inflation Reduction Act was also a wake-up call for the European Commission to revisit a topic that has been neglected for quite some time: the issue of competitiveness.

Once upon a time, in its 2000 "Lisbon Strategy" to be precise, the European Union has set itself the goal to become "the most competitive and dynamic knowledge-based economy in the world". More than 20 years later, it has become clear that the European Union has not achieved this lofty objective. On the contrary, the idea of making the European Union a great place to do business has been an afterthought at best for many years. Consequently, the competitiveness of many European Member States has decreased rather than increased over the past couple of years.

Not all of this decline can be blamed on the European level. After all, there are many levers a Member State can pull to either increase or decrease its competitiveness. Nonetheless, it is fair to say that the barrage of new substantive provisions and reporting requirements that have been introduced over the past couple of years via European legislation has certainly not helped in making European businesses more competitive.

Over the past couple of months and under the impressions of the impressive Inflation Reduction Act, the European Commission has attempted to correct course. Yet, it remains unclear if the new course the Commission has charted is indeed the correct one. One pillar of the EU's response to the Inflation Reduction Act seems to be to simply throw money at the problem. That, however, is both dangerous and misguided.

The right tool to restore competitiveness is supply-side economics, not fiscal policy.

It is dangerous as Europe will simply not be able to outspend the US in a subsidy race. This, however, seems to be precisely the rationale behind the "Temporary Crisis Framework" that allows Member States to hand out state aid in copious amounts. The framework even comes with a so called "matching clause", that is in essence an open invitation for companies to play off Member States and third countries against each other to maximise taxpayers' contribution to their investments. Such a spending-based approach is also dangerous as it heavily favours those Member States that are in a strong fiscal position and could thereby create a rift within the EU.

Throwing money at the problem is a misguided strategy as well since it comes with a hefty price tag, yet is unlikely to convincingly solve the problem. Few businesses are that short-sighted that they make their investment decisions for a new production capacities merely on the basis of a single one-off subsidy. Instead, what matters is the bigger picture and the general question of whether a location is a good place to do business. Things like a modern infrastructure (physical and digital), a skilled workforce, a favourable tax environment and a benign regulatory environment matter a lot more in the long run than a time-limited subsidy regime. That is why the right tool to restore competitiveness is supply-side economics, not fiscal policy.

This conclusion also implies that we do not need any new budgetary tools such as a European sovereignty fund that is demanded by some policymakers. We have already seen with the Recovery and Resilience Facility, that there is indeed no lack of available funds would hold new investments back. On the contrary, often the available money is not even fully spent - a similar observation holds true with regards to other co-financed EU projects, for example in the area of cohesion policy. Often, there is simply a lack of administrative capacity to implement high-quality projects, which would have the potential to boost growth and competitiveness.

That also proves that the public sector and public money should not be overstretched, when the actual objective is to boost investments and ultimately competitiveness. In the end, the private sector is a much better and much more efficient allocator of capital than the public sector could ever be. The role of policymakers is not to pick winners, but to create the conditions for market participants to do well and to become and remain competitive in an international context.

The European Commission seems to have received the message and the SME relief package and the Commission President's promise to cut reporting obligations by a quarter are some first steps into the right direction. However, more needs to be done and supply-side economics should feature prominently on the Commission's working agenda for the next political mandate.

MARIA TERESA FÁBREGAS
Director - Recovery & Resilience Task Force - European Commission

Recovery and Resilience Facility: more than the EU green and digital transitions

The Recovery and Resilience Facility (RRF) is at the heart of Next Generation EU: an unprecedented solidarity exercise at European level designed for Member States to emerge stronger from the coronavirus pandemic, prevent creating further divergences within the Union and support a Union's growth strategy towards a greener, more digital and just economy, where no one is left behind. With up to EUR 648 billion in grants and loans, the RRF has introduced an unprecedented volume of funding to relaunch Europe.

Each Member State has established a country plan with reforms and investments to make its economy and society more sustainable, resilient and prepared for the green and digital transitions, in line with the Union's priorities. The national plans address long-lasting socio-economic national challenges identified in country-specific recommendations under the European Semester framework of economic and social policy coordination.

In 2022, Russia's aggression against Ukraine has put us in a new context, a new crisis needed to be addressed. The REPowerEU initiative, with additional EUR 20 billion in grants in the RRF has allowed Member States to add new reforms and investments in their plans to accelerate the energy transition, reduce our dependence on Russian fossil fuels, diversify energy supply, accelerate the deployment of renewable energy and improve energy efficiency in key economic sectors (transport, industry, public buildings, housing). The revision of the plans in 2023 has been an opportunity to increase the level of ambition where new challenges require stronger responses, or where reforms in existing plans did not address all known challenges, and to take into consideration the impacts of the war such as very high inflation, supply-chain disruptions, etc.

Member States receive disbursements upon taking steps in the implementation of reforms and investments, through the fulfilment of milestones and targets. This is the performance-based nature of the RRF. So far, the Commission has received in total 55 payment requests by 24 Member States. The total amount of disbursements under the Facility has exceeded EUR 220 billion. The end of 2023 saw a peak in payment requests (for around an additional EUR 39 billion).

The recovery and resilience plans are already making a real and lasting difference on the ground.

These disbursements have been made possible by the adoption of transformative reforms and launch of important investments by Member States, the positive impact of which are already beginning to be observed. Transformative structural reforms related to labour markets, taxation, spending reviews, pensions, judicial systems, simplification of public administrations, removal of administrative bottlenecks, education, healthcare etc, have been adopted. More important reforms are to come in several Member States. These reforms can substantially increase growth further in the longer run and facilitate the delivery of RRF supported investments on our common priorities, as well as private and public investment more generally.

Member States are well on track to deploy RRF funded investments in key areas of strategic importance for the Union's resilience, competitiveness and sovereignty. We want to highlight the use of financial instruments in some national plans that will help crowd in private investments to these key areas.

We see that public administrations, at national, regional and local level, are investing significantly in the steady delivery of the Recovery and Resilience Plans by mid-2026. Businesses will be able to turn the excellent opportunity offered by the Recovery and Resilience Facility for Europe into concrete achievements that improve the Union's competitiveness, its ability to compete in global value chains and progress in social welfare, in line with the Single Market rules.

The Recovery and Resilience Facility was created to recover from the pandemic and make the European Union better prepared for future challenges such as the green and digital transitions. But not only. The Recovery and Resilience Facility will also play a key role in strengthening the Union's resilience with strong social action contributing to the delivery of the European Pillar of Social Rights across Member States. The Recovery and Resilience Facility is well on track. The Commission continues to support Member States to deliver its steadfast implementation.

The investments and reforms identified in each plan are already making a real and lasting difference on the ground. The aim is for future European generations to live in modern, prosperous, inclusive, sustainable, resilient and better prepared economies and societies for new challenges and opportunities. We can only achieve this goal by working together, in close cooperation between administrations, businesses, workers and civil society.

CYRIL ROUX
Deputy Chief Executive Officer - Groupama

Financing growth in Europe: challenges and roadblocks

The European Union is a single market of 450 million citizens of advanced economies, buttressed by the rule of law, well enforced property rights and reasonable prospects of democratic stability. Yet for decades now its economic growth has been financed in a lopsided way, relying too much on credit, while its high savings rate helps finance domestic governments and firms outside Europe, in particular in the United States. European citizens are risk-averse investors, in the main, so the fraction of their savings going to risk capital is limited. To make matters worse, the share of their savings they do allocate to risk capital is in good part allocated abroad. The aggregate market capitalization of EU firms is not in keeping with the size of EU's economy as measured by GDP, and a significant fraction is in non-European hands.

Several key structural elements are at play to explain the low equity stake of EU citizens in their domestic firms. First, the way individual savings are funneled in Europe leads to underinvestment in equity. This underinvestment comes in several ways. The pay-as-you-go pension systems common in much of Europe rob EU firms of a major source of funds, while in the US individual pension savings such as 401(k) or Erisa accounts provide equity funding to the domestic economy. Where pension funds are set up in Europe, prudential constraints that weigh upon them skew their asset allocation away from risky assets.

The recent introduction of the pan European pension plans has been ineffectual. In France, the situation is aggravated by the use of with-profits life insurance products as all-purpose investments and savings vehicles: their capital guarantees and the Solvency 2 prudential requirements ensure that a very large fraction of the monies invested through these contracts go to sovereign credit and bank refinancing instruments, rather than equities.

On top of this, the preferred alternative financial investments vehicles offered to French investors are regulated savings products with fixed returns used by their government to finance dirigiste social policies. In Italy, the investment return, reduced taxation and ease of subscription make domestic sovereign debt the financial vehicle of choice.

The Retail Investment Strategy advanced by the EU Commission has been touted as a way to foster the inclusion of new swathes of citizen-investors and the development of European capital markets. However, its naivety or ignorance of the actual dynamics of retail distribution and inaffordability of investment advice that would ensue, should it be adopted as written today, bodes ill for its stated aims and so for the retail financing of European economic growth and of its multiple transitions.

> **When labor force shrinks and norms stifle economic growth, finance cannot be the only game in town.**

There's only so much to be done about market financing by addressing the design inefficiencies of investment products and the supposed inefficiencies that mar the structures of distribution channels. At the end of the day, finance will flow to firms and projects that have the best prospects of turning sustainable profits; in the aggregate, private funds will flock to the economies best positioned to harness the promise of the coming transformation of our world. In this regard, Europe has a number of issues to address.

Demographic malaise, manifest for a long time in low birth rates, below natural replacement, has turned into a contracting labor force in several countries and possibly in the European Union as a whole in the near future. Labor productivity growth is sluggish in Europe, with education attainment as measured by PISA on the wrong track in several countries. There is little succor on these fronts to expect from indiscriminate migration of ill-equipped populations coming from failed states alien or opposed to European values of gender equality, freedom of speech, rule of man-made laws over faith-based ones and preeminence of science and reason over tradition.

Beyond labor force issues, investment in Europe is hampered by our collective preference for an ever-expanding set of norms to tackle the future. It is telling that AI firms are shaping up outside Europe, but that European colegislators were the first to come up with an AI regulation. Likewise, a well-meaning approach to durability has given rise to the development of the double materiality approach, unique to the European Union, and as such a drain to its economic dynamism. The carbon border adjustment mechanism exemplifies the new Fortress Europe: our internal regulations lead to the interdiction of foreign products or services, or the imposition of custom duties to level the competitive playing field, while the same regulations limit the production of goods and services and hampers their export.

When qualified working age population shrinks and norms stifle economic growth, finance cannot be the only game in town.

ROLAND CHAI

President European Market Services, Executive Vice President - Nasdaq

Investments for the green and digital transition can come from Capital Markets

In an era of unprecedented technological and climate change, European economies and corporations face fundamental challenges adapting to the green and digital transition. McKinsey predicts that reaching net-zero targets will require spending $9.2 trillion a year on physical assets up until 2050. It's evident that neither states nor traditional banking systems can single-handedly provide the necessary financial backing. Equally the changes herald opportunities for new industries, and sectors. In Nasdaq Europe we have helped 255 technology companies in sectors such as BioTech and MedTech come to the market since 2017.

To address the scale of investment required, a broad spectrum of investment channels across public and private have to be activated. Participation from all investments sectors is crucial, from institutional to retail investors, pension funds, sovereign and private equity. Capital markets are fundamental as the cornerstone in this scenario, providing both equity and debt financing and the ability to price and distribute risk across a democratized investor pool in full transparency. New economic sectors with uncertain return profiles need support by financial markets to allow the best price formation and risk transfer. Nasdaq's First North has been enabling micro caps in emerging sectors to access and find investment support resulting in 130 companies making the transition to the main market since 2006.

The EU needs to deliver on its capital market objectives to increase competitiveness and facilitate cross-border business and trading in the Union. Strong local markets channelling investments to corporates is crucial to successful EU Capital Markets. Local markets provide an important nexus with local investors that generates a deeply vested connection to companies. As Nasdaq Europe's 7 exchanges has demonstrated cross-fertilization by sharing knowledge and best practice to better contribute, individually and regionally, to increase investments and strengthen EU's position in the global market.

Strong local markets channelling investments to corporates is crucial to successful EU Capital Markets.

The Nordic and Swedish markets are success stories for the technology and sustainable sectors that have thrived on the capital raised, exemplifying the potential for growth in pioneering sectors. Looking at the numbers, the Swedish startup and scaleup sector have grown from employing just over 100k people in 2019 to over 270k in 2024 and, in the same period, almost doubled their enterprise values.

In order to support broad investment in new climate sectors, Financial Market Infrastructures and regulators must create frameworks to both understand sustainability and incentivize the financing of sustainability. Nasdaq actively supports companies on their sustainability journey. Nasdaq's initiatives, including the Green Equity designation and sustainable bonds, educating institutional and public investors to allocate capital to environmentally conscious companies and projects.

Through Nasdaq's ESG offerings, a suite of products for ESG reporting has been developed to align with CSRD, taxonomy, and international reporting frameworks. This commitment extends to promoting technologies that actively remove carbon from the atmosphere, contributing to a more sustainable future.

In pursuit of the net-zero policy vision, Nasdaq has invested in Puro.earth, the world's leading crediting platform for engineered carbon removal. This strategic partnership connects industrial carbon removal, based on the Puro Standard, with buyers seeking to implement sustainability goals by removing carbon dioxide from the atmosphere.

A thriving capital market ecosystem that is both inclusive and diverse is essential for delivering on investment for new digital and green sectors, this includes:

- Fostering an environment of transparency.
- Cultivating a society that values innovation.
- Supporting IPOs, especially for smaller companies fostering economic development.
- Encouraging institutional investors and pension funds to invest in SMEs.
- Lowering entry barriers for retail investors with robust financial literacy.
- Market Structure and Supervisory Authorities complementing legislation.
- Incentivizing investments towards sustainable and digital sectors.

While the development of such an ecosystem takes time and collaboration across policy makers, regulators and private sector, sustained focus and strategic measures can pave the way for a flourishing capital market.

Nasdaq's comprehensive approach underscores the pivotal role of capital markets in propelling Europe toward economic progress while championing sustainability and innovation. The CMU serves as a beacon, guiding member states toward a unified and robust capital market framework.

JEAN-JACQUES BONNAUD
Treasurer - EUROFI

Elaborating a genuine European industrial policy to face common challenges

NGEU is an unprecedented joint response to the COVID-19 crisis, making over €800bn available to Member States to stimulate economic recovery by investing primarily in the green and digital transitions. However, at this stage, unlike the IRA in the US, NGEU and EU Funds have not been able to boost productive investment, particularly in the countries that benefit most from this European aid (Italy, Spain).

A recent study by Trendeo, Fives, McKinsey & Company shows that despite its major efforts, the EU is struggling to convince investors to invest in its territory. According to this study, investment in the United States increased by 4% over the period from July 2022 to June 2023 compared with the period June 2021-June 2022, amounting to 309 billion dollars. This is undoubtedly mainly due to the Inflation Reduction Act (IRA). By contrast, investments recorded by Europe between July 2022 and June 2023 stood at -25% (compared with the period June 2021-June 2022); this figure even reached -38% in the European Union, which questions the performance of NGEU and the effectiveness of Member States' public spendings.

When qualitatively comparing NGEU and the American IRA, one thing is striking: the American funds are easily and quickly accessible and work as an incentive to achieve the fixed objectives, whereas national and European bureaucracies make the progress of spending NGEU funds cumbersome and relies heavily on prohibitive rules.

The speed of deployment of the IRA and the whopping number of companies that have announced investments on the American soil illustrates the success and the simplicity of the IRA one year on. However, the deployment of NGEU is slower as it is impeded by the lack of skilled workforce and the burden of bureaucracy.

Considering this situation, what should be done?

1. Rewarding risk taking and long-term investment

Long-term investments incur a risk – especially linked to technological and regulatory updates, as well as uncertainty – and demands the immobilization of resources in the long run. Therefore, risk-taking must be rewarded, otherwise private savings will remain liquid and will not be directed towards long-term productive investments in the EU. This has not been the case over the past 15 years as real interest rates have remained close to – and even under – zero.

2. Giving certainty to transition pathway in the EU

EU Member States should give all economic agents clear and complete national transition scenarios (sectoral priorities, timetables, risk edging mechanisms) and guidelines so that citizens, companies and public authorities make coordinated progress.

3. Getting public finances back in order

The sooner we get public finances back in order, the sooner states will regain the leeway they need to invest. In addition, over-indebted Member States must also revise the composition of public spending to accentuate the efforts in the fields at the heart of the transitions – i.e. R&D and carry out supply-side-oriented reforms to reinforce their production system and rekindle their industrial power.

4. Elaborating a genuine European industrial policy to face common challenges

To avoid lagging behind the US and China, the EU needs to adopt a genuine industrial policy. To do so, it is urgent that fiscally undisciplined Member States reduce their public debt and deficits, and that they shift their public spending toward productive investment. Furthermore, the EU needs appropriate competition policy to boost its industry and to accelerate the single market while re-establishing a community preference. The IMF estimates that further integration of the single market would enable the EU to gain up to 7pp of GDP.

5. Balancing national and common interests in the EU

There is an urgent need to find the right balance between national and common interests in the EU economic, financial and industrial areas. Recent events seem to show that industrial and economic nationalism is rising in Member States, which further thwarts the efforts towards more integration in the industrial field. Even if it is understandable that each Member State wants to keep their sovereignty, they cannot have it both ways. There is an urgent need to find the right balance between national and common interests.

The EU is struggling to convince investors to invest in its territory.

6. Developing European projects financed by European companies

What the EU needs now is to finance common European projects led by European companies. Europe should finance common European projects, hence the necessity to implement a genuine industrial policy, especially in strategic sectors such as digital, energy, cleantech, defense and space.

The multiplication of Important Projects of Common European Interest (IPCEIs) and collaborative projects between Member States is undeniably a way forward, given that they align their objectives, they identify qualifying and profitable projects and that they find adequate funding. This would facilitate and foster the emergence of competitive European companies, champions and SMEs, as they would benefit from economies of scale in the single market.