



## Strategic autonomy and competitiveness of EU financial players

**John Berrigan** - Director General, DG FISMA, European Commission

**Riccardo Barbieri** - Director General of the Treasury, Ministry of Economy and Finance, Italy

**Harald Waiglein** - Director General, Economic Policy and Financial Markets, Federal Ministry of Finance, Austria

**Odile Renaud-Basso** - President, European Bank for Reconstruction and Development (EBRD)

**Jean Lemierre** - Chairman, BNP Paribas

**Francesco Vanni d'Archirafi** - Chairman of the Board, Euroclear S.A.

### John Berrigan (Chair)

John Berrigan introduced the topic of the panel discussion, strategic autonomy. One could argue that strategic autonomy can only be defined in its absence, much like financial stability. The focus of the panel was on whether the EU should consider the banking and financial sector as strategic and whether policy action, including but not limited to regulatory policy, is needed.

### Jean Lemierre

Jean Lemierre explained that the financial sector is indeed strategic. Activities are financed by savings, which are closely linked to growth, through private sector activities and the needs of governments, such as energy transition, technology and defence. The question should not be whether the financial sector itself is strategic, but whether the financial sector is doing the necessary work in line with countries strategy. Banks finance 75% of the economy in Europe where there is a lot of savings. More could be done.

The question is how to unlock this Europe's potential. It could be achieved by opening channels through securitisation, private credit, listed equity and private equity. An economy is well financed through different competing channels that are safe and well regulated. This is how the American economy is financed. To deliver this, European players are needed. The improvement and consolidation of large institutions over the last 20 years is to be welcomed. A level playing field is crucial for global markets. Strategic autonomy is based on diversity and competitiveness.

### Francesco Vanni d'Archirafi

Francesco Vanni d'Archirafi said that the financial sector is strategic and this is understandable when you read about the immense financial needs of Europe today. A strong banking system and stronger capital markets are fundamental to financing projects that are important for Europe, such as the green transition, the digital transition, energy independence and defence. Second, having European champions with global ambitions, or global champions anchored in the financial sector in Europe, is crucial to strengthen Europe's strategic autonomy, economic resilience and competitiveness, as a strong financial sector at home is key to strength on the global stage.

The financial market infrastructure in Europe today contributes significantly to Europe's competitiveness and strategic autonomy. Europe is home to two leading international central securities depositories (ICSDs), Euroclear and Clearstream, which mediate global debt markets. Together they hold 84% of all securities in all CSDs in Europe. Euroclear is not only the largest CSD in the EU, but also the largest and most active CSD in the world in terms of the value of transactions processed, as noted by the Bundesbank in a recent report. The settlement volume of Euroclear's ICSD was 750 trillion euros in 2023 and if we take the Euroclear Group, settlement volumes reached €1.1 quadrillion last year. This is equivalent to annual European GDP settled every six days or global GDP settled every month.

ICSDs are used as gateways for global investors to access global capital markets. A Chinese investor who

wants to buy a bond in Latin America is likely to use either Euroclear or Clearstream. Among others, three key benefits that CSDs bring to the European cause are support for cross-border transactions, support for the international role of the euro and strong network effects.

### John Berrigan

John Berrigan summed up by saying that the sector is clearly strategic, and perhaps even more so now in the context of a less certain global financial order. While neither speaker had taken the opportunity to explain what the public policy action could help to manage the situation, they had agreed that the financial sector looks a little more strategic now than it did even a week ago. John Berrigan asked Harald Waiglein how to deal with the issue of strategic autonomy.

### Harald Waiglein

Harald Waiglein noted that while there is agreement on the strategic nature of the financial sector, the question of whether it deserves special protection is not an easy one. In order to have a successful Capital Markets Union (CMU) in Europe, it should be well integrated into the global financial system, because autonomy cannot extend to isolating European capital markets from other major capital markets. Recent events have shown that the only thing that has changed is that it cannot be assumed that other actors are always rational. There may be bad faith or irrational behaviour, and this has to be taken into account when managing the risk of certain dependencies on other actors.

Austria was the first country to sign a contract with Gazprom in the 1960s, and for 50 years this was seen as a very secure source of cheap energy. It was thought that dependence was a two-way street. Austria got the gas, but for Russia it was 10% of its GDP. Russia would not risk that lightly, and that calculation was correct as long as there were rational actors around the table. But when someone uses something as a weapon for a motive that is not economically rational, that calculation changes. This should be taken into account when managing the risk of dependence on third countries. Dependence should only go so far, and there should always be alternatives to fall back on.

### John Berrigan

John Berrigan agreed that strategic autonomy is not about self-reliance, but about having options and choosing to make decisions rather than having to make them. Strategic autonomy is about continuing to engage with the rest of the world but on safe and sound terms, rather than disengaging.

### Riccardo Barbieri

Riccardo Barbieri commented that it is important to think about strategic autonomy, but the current situation is one of risks and opportunities. The change in the US stance is a bigger shock than Brexit, but there are some similarities in that a political process can have major economic and financial implications. Brexit was not only a risk, but also a financial opportunity. Europe was able to benefit from that opportunity only partially. London is still the preeminent financial centre in our time zone.

The importance of the financial sector should be recognised. It channels resources to the non-financial sector, but it is also an important activity in its own right. It can be a major source of employment. For many years, the centre of European finance has been in London, not in the capitals of continental Europe. We need to look at what can encourage greater activity on the continent.

What characterises major financial institutions is franchise, people, motivation and constant innovation and creativity. This is not something that is easily created. Over the years, some European investment banks have had a measure of success. But others have declined or failed. The ingredients of success are not easy to replicate. Europe now has a potential opportunity in the face of the 'trade war,' which could be something worse and more ominous.

The CMU has been discussed for a long time. There is a broader issue of how labour markets work, how people are motivated, how they are rewarded and the culture of risk-taking. It is unclear whether all this can be done through regulation. It is important to note that sometimes simplifying something can make it more complicated. The CMU is now called the Savings and Investment Union (SIU).

Efforts must be made to find a better combination between competitiveness and the social model and inclusion policies, which are important and should continue to characterise European countries, economies and societies.

At the same time, Europe needs to change more fundamentally if it is to compete globally. All countries want the International Monetary Fund (IMF) to continue to do its job, with its current approach and the broader mandate it has been given in recent years. The US is watching and may take a position over time, but at the moment it is in a holding pattern because many people have not yet been appointed. There is a sense that the world is looking for leadership and that is where the potential is today.

## John Berrigan

John Berrigan agreed that Europe should not simply judge its financial sector performance against the performance of the United States, but the financial sector in Europe can do better relative to its own potential. Odile Renaud-Basso was asked for her views.

## Odile Renaud-Basso

Odile Renaud-Basso highlighted an example where some countries in the EU that were close to the war in Ukraine are now struggling to access funding. There is still an impact on access to finance because the US saw the whole area as a war zone without looking at the nuances and pulled out. You can see this in private equity and other markets, and it gives a sense of what strategic autonomy means and the consequences of an external shock because of the dependence on external elements.

Financial innovation is very important in the strategic dimension. There is a huge innovation gap in Europe. Europe struggles to scale up and bring its strength in new technologies in line with its overall economic weight. This is partly due to cultural factors as well as funding challenges and is a key strategic dimension.

It is important to consider whether strategic autonomy is discussed at the European level or at the national level. Countries often see capital markets, capital infrastructure and the banking sector as strategic at the national level. There is a great deal of tension between progress on strategic autonomy at the European level and progress at the national level.

Fragmentation is one of the barriers. Europe is global, but there is still some fragmentation and political reality. It is important for countries to have their own stock exchange, their own CSD, their own infrastructure, but it is important to think about financial strategic autonomy at the European level. There needs to be progress on EU integration. There are many things that can be done in terms of cooperation between countries, such as improving liquidity, improving market access to reach a critical mass of companies, IPOs and market activity. Cooperation at the regional level within the EU makes a lot of sense.

The EBRD has worked extensively with the Baltic countries to come together and develop a common regime for covered bonds and market activity, which has been very successful in increasing liquidity and visibility in the region. The EBRD is currently in discussions with the stock exchanges of seven countries and the market infrastructure to establish some kind of link, cooperation, common instruments and common tools.

This is a step towards better integration at the EU level.

## John Berrigan

John Berrigan observed that the world is moving towards a system of competing regional blocs. There is no single member state in the EU or country in Europe that can be strategically autonomous in such a context. There are two steps. The first is to convince member states that capital markets are good, and the second is to convince member states that a common capital market is much better.

## Jean Lemierre

Jean Lemierre said that the notion of strategic autonomy has substance. During Covid, the European constituency was given full priority by European banks. Financial institutions have a role to play for the people of Europe.

Competition is key. This is not a debate about protectionism. But we need a level playing field. Supervisors and regulators in the EU Commission have to take this into account. This is difficult today because there is a part of the world where deregulation has become the goal. It is the Commission's job to fine-tune what needs to be done, otherwise Europe may lose ground. There should be a fair, honest dialogue on these very difficult issues, because while Europe wants to be safe, it must be able to compete.

There should be efficiency in mobilising Europe's long-term savings. Some of it has to be better used for Europe, especially in equity and lending to long term projects in an efficient way. It is unfortunate when European start-ups ask to move to New York to raise money because Europe does not offer them the equity they need to grow. When this happens, the substance and talent of Europe are transferred

## Francesco Vanni d'Archirafi

Francesco Vanni d'Archirafi noted that there is a consensus that Europe needs to move forward urgently, but there is no "magic bullet". It will take time and cannot be solved in a few weeks. It is important to understand that the two European ICSDs are not a problem but rather huge European assets that should be preserved and leveraged as they will enable some of the things mentioned in this panel

## Jean Lemierre

Jean Lemierre stressed that all the comments made during the discussion were not against anyone, but for

Europe. A capital market should be created for Europe, not against anyone.

### **Riccardo Barbieri**

Riccardo Barbieri said that the debate about the SIU should not be detached from funding needs and investment opportunities. Europe has very large financing needs for sustainable-mobility infrastructure and for the environmental transition. For the success of the SIU initiative, it is important to set up working groups on issues on which there is greater scope to find a solution.

### **Harald Waiglein**

Harald Waiglein asked whether strategic autonomy was also a question of not being too dependent on debt financing in the sovereign and corporate sectors.

### **John Berrigan**

John Berrigan commented that this question could be saved for a future panel.

### **Odile Renaud-Basso**

Odile Renaud-Basso said that one of the challenges is to make progress. There needs to be a clear political goal. CMU was very difficult. When you have a goal, it is

easy to understand that what needs to be done is more difficult and there should be a political impetus. Recent developments in the US could provide that impetus.

### **John Berrigan**

John Berrigan summed up by saying that the financial sector is obviously strategic, but the question is how to make it autonomous. Autonomy does not mean self-reliance, means continued engagement with the rest of the world. Europe wants to build its own financial sector but is not against international competition. . Finding the balance between resilience, security and openness is difficult.

The financial sector is not the only one where this has to be discussed. There is sometimes a sense in this debate that as long as the financial sector is stable, everything else will be fine, but that is not the case. Financial stability is a necessary but not a sufficient condition for sustainable growth. The sector is very important, but its importance should not be exaggerated.