Q&A

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Enhancing the EU single market by overcoming internal barriers

With each member state facing its own economic challenges — such as France's indebtedness, Germany's struggling economic model and the Baltic and Nordic countries' war fears — how can we revive and strengthen European economic and financial cooperation?

First of all, it is crucial to recognize the strategic opportunity that the European Union currently holds. Despite the economic and geopolitical uncertainties, the EU is well-positioned to advance the European project.

Some of the problems, but also key solutions to strengthen the European economy can be found in the Draghi report. Specifically, Mario Draghi has highlighted significant barriers within the EU's own single market, equating them to "hard tariffs" of approximately 45% for manufacturing and 110% for services. These internal barriers underscore the need for further economic integration within the EU to create a more robust and unified market capable of competing on a global scale. This includes the completion of the Banking Union and the Capital Markets Union, which are essential for enhancing financial stability, increasing investment flows, and creating a more attractive environment for companies seeking to expand their cross-border operations in Europe.

To tackle Member State indebtedness and creating more efficient economic models, some potential solutions that Member States could explore include increasing fiscal coordination, allowing for economic diversification and the fostering of cross-border companies which can deploy greater economies of scale. To tackle security concern, enhancing cooperation is the only way forward, and, over the past few months, the European Union has shown willingness to progress in this area.

Specifically for the banking sector, a more integrated banking system would not only help European banks achieve economies of scale, making them more robust and resilient, but it would also benefit them by reducing the complexity and costs associated with navigating multiple EU Member States. This integration provides an opportunity for a more streamlined client offering, ultimately benefiting the overall EU financial sector.

What factors have hindered the completion of the Single Market, particularly in services, energy, and digital sectors, despite repeated political initiatives over the past two decades? Why has progress toward a true "Savings and Investment Union" remained slow, and how can Member States and EU institutions accelerate it?

The completion of the Single Market has been hindered mainly by regulatory complexities and diverse interests among Member States, as harmonizing regulations across countries with varying priorities and economic conditions has proven challenging. Additionally, geopolitical factors and differing levels of commitment to integration have contributed to the slow progress.

However, the Savings and Investment Union carries a stronger political imperative compared to previous initiatives aimed at harmonizing EU capital markets. This is driven by the urgent need for substantial investments to regain competitiveness and enhance productivity, as highlighted in the above discussed Draghi report. There is a -welcomed- heightened focus on the role of Member States, emphasizing a collaborative approach rather than solely relying on top-down policies from Brussels.

Recent developments, such as the successful containment of inflation in the Eurozone and the ECB's subsequent interest rate cuts, have the potential to positively impact the EU economy. Additionally, the first half of 2025 has witnessed a surge in European stock market valuations, with markets recognizing the continent's stability amid growing geopolitical uncertainty.

To capitalize on these favorable trends, the EU and its Member States should continue to advance the Savings and Investment Union project and finally achieve a true capital markets and banking union – more on that below. Member States must also fulfil their public spending commitments, particularly in infrastructure and defense, to sustain growth and competitiveness.

Europe can count on many companies that excel in cutting-edge and strategic sectors. However, to create European champions with global reach, the EU requires a coordinated approach in concentrating financial resources on innovative companies through strategic investment and collaboration across Member States.

What is vital is that the EU acts as a single economy, rather than defending a variety of diverging local interests. Greater harmonization in EU capital markets will inevitably lead to winners and losers, and Member States may need to make difficult choices for the EU to gain overall competitiveness. Identifying key players, fostering cross-border partnerships, and creating a supportive innovation ecosystem will strengthen Europe's global market position and drive economic growth.

What additional policy priorities beyond securitisation are needed to unlock long-term capital, enhance cross-border investment, and foster innovation and sustainable growth in the EU?

While a reform of the securitization framework is a welcome development, it is not a silver bullet to fix the growing financing needs of the European economy. Regulatory harmonization, reducing cross-border barriers, and fostering a conducive environment for capital flows are essential. Policies supporting innovation, digital transformation, and sustainable development can attract long-term capital and drive growth. Collaboration among Member States to align investment priorities and create a unified approach is key to realizing the EU's capital market potential. Official sector top-down and bottom-up processes need to run in parallel. However, bottom-up market developments are also important, in terms of technological improvement, market consolidation, and product innovation.

Why is completing the Banking Union important? How can national ring-fencing and domestic bias in banking supervision and regulation be dismantled? Is a phased approach the most realistic path toward completing the Banking Union?

Completing the Banking Union is pivotal for advancing the Savings and Investment Union, as it lays the foundation for a more integrated and resilient financial system within the European Union. A unified banking framework enhances financial stability, fosters trust among member states, and facilitates the free flow of capital, which is essential for robust savings and investment activities.

To dismantle national ring-fencing and eliminate domestic bias in banking supervision and regulation, EU policies must prioritize harmonization and integration. This means aligning regulatory standards across Member States and ensuring that supervisory practices are consistent and transparent. By fostering a culture of cooperation and trust, the EU could create an environment where banks can operate seamlessly across borders, thereby enhancing efficiency and competitiveness.

The Eurogroup's agreement on a roadmap for the creation of the Banking Union provides a structured path forward, emphasizing a phased approach that is both realistic and strategic. Gradual implementation allows for careful assessment and adjustment, minimizing risks and ensuring that all Member States are adequately prepared for the transition. Adhering to the roadmap is crucial, as it not only demonstrates commitment to the Banking Union but also builds confidence among investors and stakeholders.

For a comprehensive EU agreement, several conditions are necessary. Firstly, the establishment of a European Deposit Insurance Scheme (EDIS) is crucial to protect depositors and enhance confidence in the banking system. Secondly, policies must ensure the free movement of capital and liquidity within cross-border banking groups, enabling banks to optimize their resources and respond effectively to market demands. Lastly, the recognition of legally binding group support mechanisms across jurisdictions is essential to provide a safety net for banks operating in multiple countries, thereby reducing systemic risk.

In conclusion, completing the Banking Union is a strategic imperative for the EU. By fostering integration and cooperation, the EU can create a more resilient financial system that supports sustainable growth and prosperity across the region.