Policy priorities for EU finance amid rising uncertainty

1. A new strategic context: balancing geopolitics, economic priorities and policy trade offs

The speakers highlighted the evolving nature of Europe's priorities and the need to reconcile economic, sovereign and regulatory objectives amid growing structural tensions.

1.1 Balancing the EU's strategic objectives

The Chair opened the discussion by noting that there is broad agreement on the policies needed to strengthen the efficiency and resilience of the EU financial system — banking union, capital markets union (CMU), simplification and burden reduction. However, there is less consensus on the trade-offs that emerge in pursuing these goals. Uncertainty persists over whether to prioritise geopolitical or economic objectives, strategic autonomy or openness in financial services, and competitiveness in the financial sector or in the wider economy. Financial sector competitiveness does not necessarily translate into overall economic competitiveness. Calibrating regulation with the aim of enhancing economic competitiveness may at times conflict with financial stability. The ultimate objective is to achieve a fully integrated banking sector with centralised liquidity and capital management, yet it remains unclear how host countries' concerns over capital and liquidity outflows can be addressed. These are the perceived trade-offs — it is not yet certain whether they are real.

1.2 Embedding geopolitics into the financial agenda

1.2.1 European security as an economic driver

A public representative stressed the need to integrate a geopolitical perspective into financial policymaking. Given today's geopolitical environment, the management of Europe's economy and finances cannot continue on a business-as-usual basis. Competitiveness, resilience, digitalisation and the advancement of the CMU remain essential, but in Eastern Europe the most valued public good is security — including its military dimension. This demand for security will inevitably reshape Europe's economy. As President von der Leyen underlined in her recent State of the Union address, the EU must now reorient itself around the common good of European security.

1.2.2 Strategic sovereignty will reshape Europe's economy and finances

The public representative added that competitiveness and the CMU should not be overlooked in this evolving context. The escape clause in the Stability and Growth Pact (SGP) allows member states to raise defence expenditure, while the new Security Action for Europe (SAFE) initiative introduces collective borrowing for defence purposes. The European Investment Bank (EIB) is also breaking new ground by financing quasi-military projects and investing in critical infrastructure and raw materials. While the Eurofi sessions cover all major policy issues, it is vital to recognise that the EU itself is changing. Europe, long a pacifist project, is now rearming — a transformation with profound financial implications.

1.2.3 Geopolitics meets geoeconomics

The Chair observed that geopolitics and geoeconomics are increasingly inseparable. The EU's geopolitical relevance depends on the strength of its economy; a structurally weak economy cannot sustain global influence. As the EU strives for greater strategic autonomy, it may need to reconsider aspects of globalisation. Globalisation was originally driven by growth, but moving away from this model implies trade-offs that must be clearly understood.

1.3 Evolving policy priorities: from green and digital to defence

An official noted that the EU policy agenda has shifted from the green and digital transitions towards defence — a shift emblematic of the European political debate and of the shift in America's position. While all these objectives remain important, it is worth recalling that Russia's aggression in Crimea and Donbass began in 2014. The threat has been at Europe's doorstep for over a decade.

1.3.1 Beyond capital markets: structural issues in the economy

An official highlighted the broad consensus on advancing the CMU, though elements of the Savings and Investments Union (SIU) remain ill-defined. For example, while the need to expand pension funds is widely accepted, the new European label for savings products lacks clarity regarding its nature and distinction from pension funds. Some argue that Europe should emulate the dynamism of the United States, yet persistent issues around investable assets, labour market flexibility and economic competitiveness lie beyond capital markets themselves.

1.3.2 Clarifying the objectives and simplifying the rules

An official further observed that a key trade-off lies between national and European policies, particularly evident in cross-border consolidation. Member states often resist such transactions, creating multiple obstacles. This tension could be eased by clarifying the overarching objectives of EU financial policy. Certain aspects of the CMU remain vague, and the root causes of regulatory overload — volume, complexity and purpose — require clearer definition. Even recent EU texts are difficult to interpret. Industry and member states should submit concrete proposals to policymakers and help them adopt a more concrete and simpler approach. France and Spain's initiative to create the European Competitiveness Lab is a positive step. Although enthusiasm for competitiveness reforms has waned, they remain critical to success; meaningful progress requires active national engagement.

1.4 Regulatory simplification to enhance agility

An official cautioned that deregulation in the name of competitiveness is not the solution. Simplification is conceptually simple but difficult to achieve in practice. While the first layer of EU regulation appears clear, subsequent layers add complexity. Europe's decision-making process remains slow, compounded by a patchwork of national legislation. Strengthening intra-EU cooperation and encouraging more proactive engagement from member states could accelerate progress. Introducing incentive mechanisms might help bring more reluctant countries on board.

1.4.1 Integration and Faster Decision-making as Drivers of Competitiveness

An official observed that the deepening of the single market and the creation of a more integrated market will boost competitiveness and benefit businesses. The banking union and the capital markets union are essential components of this process. The EU decision making process is very slow and necessarily involves a considerable degree of compromise. These factors are major barriers to integration. It can take years to reach a conclusion on a regulation or proposal. Member states should try to remove some of their national biases and reach agreements more quickly.

1.4.2 Smarter regulation to support competitiveness

An official added that the debate should not oppose simplification to regulation. The key is to ensure that regulation delivers value. Simplification must not be an end in itself. All new EU initiatives should undergo "simplification checks" from the outset — a more effective approach than overregulating and simplifying afterwards.

1.5 Rejecting false trade offs: strategic autonomy and openness; banking and economic competitiveness; regulation and growth

An industry speaker argued that many of the perceived trade-offs are in fact misleading.

The first misconception is that strategic autonomy and open financial markets are incompatible. In reality, a jurisdiction's strategic autonomy depends on having a resilient, attractive and competitive financial sector — which cannot exist in isolation. Connectivity is essential: capital will always move towards open and efficient markets. Restricting flows or imposing capital controls would be economically self-defeating. Europe should therefore focus on making its markets more attractive, not less open. The key question is how to ensure that Europe's financial system and its broader economic framework are appealing to investors — their combination would form a powerful foundation for autonomy.

The second misconception is the opposition between strengthening banking sector competitiveness and broader economic competitiveness. Sustainable financial competitiveness requires a dynamic economy. Encouraging competition among financial institutions ultimately strengthens the sector and supports growth. However, simplification must not be equated with deregulation. Excessive and duplicate reporting obligations — often both national and EU-level — impose high costs and reduce efficiency. Policymakers frequently underestimate this burden.

Finally, there is a nuanced trade-off between regulation and growth. More regulation may protect stability but constrain growth; less regulation may stimulate activity but increase vulnerability. Striking this balance is crucial. The speaker observed, "the US may regulate too little, while Europe regulates too much." Europe will have to determine how far it is willing to adjust its level of protection to foster growth.

An official added that policy discussions increasingly reflect geopolitical considerations. Topics such as stablecoins and central bank digital currencies (CBDCs) are now routinely addressed in Eurogroup and ECOFIN meetings. While the European Stability Mechanism (ESM) has supported both retail and wholesale stablecoin projects, the debate has evolved into one concerning payments and clearing. Given that 99% of stablecoins are denominated in dollars, geopolitics is directly relevant. Europe must develop its own digital solutions - such as CBDC - to maintain competitiveness. As one minister noted, "Europe regulates digital assets; the US profits from them." This reality may require revisiting MiCA. There is no contradiction between strategic autonomy and openness: both must coexist if Europe is to remain attractive and competitive.

1.6 Closing the sovereignty gap: fragmentation and US dominance

An industry representative observed that simplification is not a zero-sum game. Theoretical trade-offs between protection and efficiency, or between stability and growth, do not necessarily hold in practice. In Europe, it is possible to combine financial stability, profitability, effective economic financing and sovereignty. Yet, outside retail banking, the top global players in asset management, capital markets, private equity and private debt are overwhelmingly American. European institutions still struggle to offer the full range of financial products required by European businesses. While European banks excel at providing loans, US institutions dominate private market activities. The lack of a unified retail banking market — fragmented by differing national behaviours, regulations, and host-home frameworks — remains a key constraint. These structural divergences cannot be eliminated by law.

1.7 Finding balance in a fragmented political and geopolitical context

The Chair concluded that framing policy debates in terms of trade-offs suggests binary choices, whereas most require balance. The real challenge is finding the right equilibrium. Public authorities often approach these questions from a theoretical perspective, while the private sector faces their practical implications. A central question emerging from the discussion is how to reconcile fostering competition with building global champions. Achieving this balance may appear simple in principle but will prove complex when translated into concrete legislative action.

2. Fragmentation and the political barriers to integration: delivering the SIU

The speakers then examined the political, institutional and operational levers needed to advance financial integration and overcome current national and geopolitical obstacles.

2.1 The geopolitical situation is complicating financial integration

An official stressed that today's geopolitical environment makes it harder to advance EU priorities. The EU and national governments remain absorbed by the war in Ukraine and shifting US positions. Washington's evolving stance on Russia and Ukraine is prompting pressure on Europe, notably on trade, that many in the EU find uncomfortable. Against this backdrop, it is difficult to galvanise leaders around banking union and capital markets union. Political change in several key Member States over the next two years will further shape the agenda yet may also clarify the value of the European project. Fragmentation has nevertheless eased: Italy's negative TARGET2 balance has fallen by almost €100 billion (around 25%), and Italian sovereign spreads have tightened to pre-crisis levels over the past year. Conditions are therefore favourable for renewed momentum — making banking markets less segmented, progressing common deposit insurance and addressing sovereign exposures. A shared position is needed to revitalise both CMU and banking union.

An official added that geopolitical turmoil may ultimately strengthen the European project by underscoring that there is no viable alternative to acting together. With the EU's closest ally frequently changing course, European countries have little chance on their own. Greater cohesion and pragmatism are required. The European Stability Mechanism (ESM) — sometimes misread as a "European Solidarity Mechanism" — is indeed a solidarity instrument; Europe should build on that foundation.

2.2 Balancing economic reform and geopolitics

The Chair observed that the remarks by one panellist imply a circular challenge: the EU struggles to address economic weaknesses because it is preoccupied with geopolitics, yet geopolitical issues cannot be resolved without a stronger economy. An official agreed, emphasising that public authorities and private actors must be more proactive and less reactive. Once proposals are agreed, the next task is to convince the "political masters" in Brussels — a point the Chair endorsed.

2.3 Learning from successful national models

A public representative underlined the importance of the SIU. CMU began a decade ago, but SIU is a more substantial follow-up. Europe holds about €10 trillion in deposits that are not being channeled into productive investment. Full centralisation — ideally via a single platform with common deposit insurance and supervision — is not a magic fix. Retail investors in Poland, for instance, still need local brokers. One pragmatic route is to promote successful national models, such as those in Sweden and Denmark. Sweden's framework has already inspired reforms in Poland, but EU-level replication is constrained when tax incentives are involved, as taxation remains a national prerogative. The EU can recommend, not impose, changes in this area.

An official noted that the branding "Savings and Investments Union" resonates with citizens. European banks are resilient and profitable, as shown by the EBA's latest stress test, which should support progress on a common European deposit insurance. To make savings products more attractive, the EU could draw on Sweden's harmonised investment account model with flexible features. Encouraging Member States to adopt proven practices may be more effective than prescribing detailed product rules at EU level.

An official agreed that "Savings and Investments Union" is clear and relatable. The aim is to create a horizontal enabler — an ecosystem to channel investment towards EU strategic objectives. While there is broad consensus on the objective and the ecosystem's design, implementation will face obstacles. The Commission has shown welcome ambition to deliver several SIU actions by 2025. With the next Presidency taking over in January, it is essential to keep up the pace and secure tangible progress quickly.

The Chair concluded that there are reasons for both optimism and caution: geopolitics should push Europe towards greater integration, yet institutional capacity to focus on economic integration remains limited.

2.4 Overcoming political barriers and the home host paradigm

An industry speaker argued that breaking the deadlock on banking union and accelerating SIU is ultimately a political choice. Technical and financial obstacles mask a lack of political will to move beyond mistrust towards solidarity. The home–host paradigm is the primary barrier: it entrenches fragmentation and prevents the emergence of European champions. There is no trade-off between fostering competition and growing champions — the two are complementary. Competition is the discipline that keeps champions safe and sound.

While Europe waits for political alignment, markets will evolve. Some consolidation is occurring at national level. The landscape differs markedly from when discussions on banking union and CMU began fifteen years ago: private equity has grown significantly, and private credit is entering Europe at scale, largely driven by non-European institutions operating nationally. This is not yet a union, but momentum is building. These developments may generate the pressure needed to catalyse the political will Europe requires.

3. Strengthening financial sovereignty and laying the macroeconomic foundations

The speakers outlined the structural and macroeconomic conditions required to support European financial integration — including the efficient circulation of capital within cross-border groups, the mobilisation of long-term savings, and the need for fiscal credibility and monetary stability.

3.1 Rethinking regulation and enabling consolidation: building a stronger banking sector

An industry representative underlined the central role of regulation. He noted that European prudential rules tend to be risk-adverse rather than risk-sensitive, a characteristic also found in consumer protection and client-focused regulation. In some areas, such rules are not fit for purpose, to the detriment of both institutions and clients.

To strengthen Europe's banking sector, consolidation is indispensable. Europe still counts too many banks, which limits efficiency and competitiveness. Facilitating consolidation requires removing persistent barriers to integrated capital and liquidity management — including large exposure limits, the ring-fencing of capital and bail-inable assets, national resistance to liquidity pooling, and a fragmented macroprudential framework. Addressing these constraints would allow European banks to achieve economies of scale and scope, enhance their financing capacity within the single market and reinforce their global competitiveness. Only through deeper integration can the EU banking sector attain the scale, resilience and innovative capacity needed to compete globally while supporting Member States' economies.

3.2 Structural barriers to European financial sovereignty

An industry representative further stressed that declining market shares of European financial institutions in key segments represent a threat to European sovereignty. Advancing banking union requires tackling the home–host dilemma. Ring-fencing continues to restrict the free movement of capital and liquidity within cross-border groups. A recent study estimates that between €200 and €300 billion of capital and liquidity are currently immobilised as a result of these national constraints — a situation that undermines the efficiency of the European system.

The Savings and Investments Union (SIU) is an important step forward, yet the EU still lacks a robust source of long-term and illiquid savings, typically provided by pension funds. This remains a key difference with the United States, where large companies benefit from the significant inflows of household savings into pension funds every year. Mobilising similar long-term capital in Europe is essential to strengthening financial autonomy.

3.3 Restoring fiscal discipline and rethinking monetary policy

A market expert identified the first key policy question as whether the EU should cut interest rates. He expressed scepticism about such a move, noting that liquidity remains abundant and inflation is still persistent. Even an inflation rate of 2.5 % to 3 % may seem moderate, but if sustained, it becomes highly destabilising. In such conditions, lowering rates could stimulate consumption and further entrench inflation expectations. Policymakers must fully understand the consequences of easing monetary policy prematurely.

The second challenge concerns the interaction between monetary and fiscal policy. Several European countries are pursuing expansionary policies simultaneously. The combination of large deficits and loose monetary conditions risks fuelling inflation and undermining credibility. To restore stability and prevent fiscal dominance, public expenditure must be curtailed, and fiscal and debt policies realigned with long-term growth objectives.

While increased defence spending is unavoidable, it will add to public debt. Some argue that higher deficits can be offset by corresponding increases in public borrowing, but persistent reliance on debt is unsustainable. Financing non-revenue-generating expenditure through borrowing leads ultimately to an impasse. Improving public financial management and reducing debt levels are thus indispensable to safeguarding the Union's future.

Finally, long-term instruments are offering increasingly high yields, reflecting investors' growing doubts about the effectiveness of fiscal and monetary policy in an environment of lingering inflation and elevated deficits. Investors are demanding significant premiums to hold long-term bonds and prefer short-term securities or equities instead.

The question for Europe is whether to accept market scepticism or to act decisively. Without addressing structural weaknesses in fiscal frameworks, continued reliance on borrowing will soon become untenable. As Jacques de Larosière concluded, a strong Europe requires strong Member States.

Wrap up

The Chair concluded that the discussion exposed a paradox: Europe currently seems ill-equipped to confront its geopolitical, macroeconomic and structural challenges simultaneously. These constraints complicate EU decision-making but make it all the more urgent. The real trade-off for policymakers is between postponing difficult choices and acting decisively while conditions still allow it.