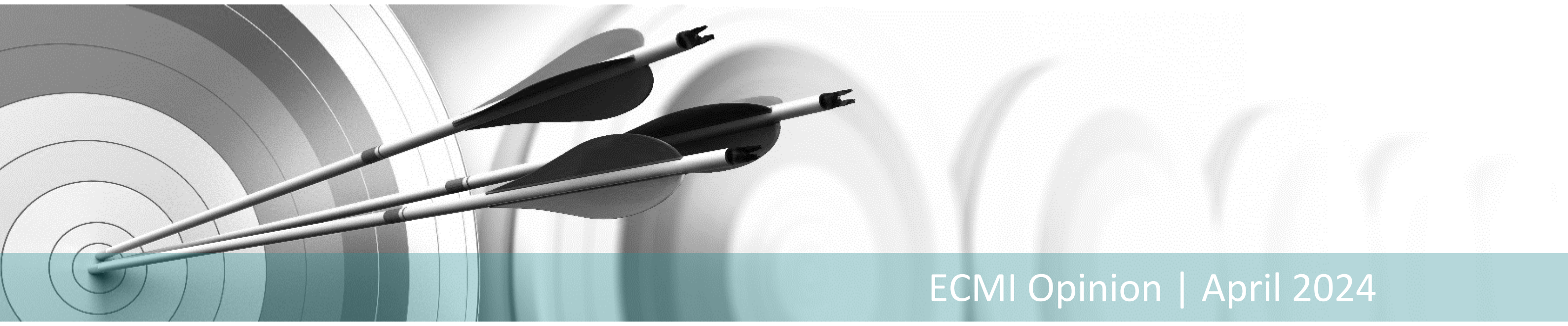

Building EU capital markets – starting with the Eurogroup's ABC

Karel Lannoo*

With the latest [Euro Summit statement] on 22 March 2024, the urgency for deeper and more developed capital markets in the EU has finally reached a turning point. The key question remains though, namely what is really different this time? For many, this will seem like a repetition of the many initiatives we have seen before or will simply set the stage for yet another action plan. The strong focus on 'citizen' involvement in capital markets could however herald a change to focus on the buy side.

How to make European capital markets better integrate and function effectively has been the subject of many reports, action plans and commentaries, but remains a burning objective yet to be fulfilled. It started with the 1999 Financial Services Action Plan, and the realisation that the euro should also facilitate a wholesale capital market. A quarter of a century later, the EU is still struggling and it has lost its steam on many fronts, rather than continuously acting to reach more critical mass. Consequently, Europe has lost out in equity and debt capital markets, and more market financing remains a distant dream.

The [Eurogroup's statement] on 11 March 2024, endorsed by eurozone political leaders, may herald change. Never before has such a detailed plan on capital markets been adopted at ministerial level. The subdivision into the three priority areas (Architecture, Business and Citizens) points to much more concrete action. Indeed, supervisory and market architecture needs to be tackled. Business needs to have more access to private funding. And citizens need to be brought closer to capital markets.

Above all the focus on the buy side may bring change, through user friendly, attractive and cost-efficient long-term savings products, and the promotion of a 'capital markets culture'. To translate this into reality will be a big challenge, however, especially when one looks at the very limited uptake of the Pan-European Personal Pension Product (PEPP), and the current difficulties surrounding the retail investment strategy proposal.

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As for the architecture, clearer prioritising and a more pronounced strategy will be needed, with stronger interoperability and consolidation of the very fragmented back office. Alongside this, a more integrated supervisory structure, possibly through a form of single supervisory mechanism, should be created to allow for a SEC-like environment where investors are protected on an equal footing. This will open business to more market financing and will complete the funding escalator.

It is, however, an illusion that this can be easily done – and it will be costly as well. Investors will only come to the markets if full transparency, accountability and redress is in place. The equilibrium will need to be found between issuers and investors and this requires the presence of many different actors over different layers – in the securities markets, in well-regulated financial infrastructures and market intermediaries, as well as in well-functioning self-regulatory organisations and government institutions.

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