

Fostering European unity: time for a genuine capital markets union

Perspectives of the French and German Central Banks

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Europe is at the heart of the crisis: Russia's war against Ukraine, energy crunch, inflation. We are writing together today with one conviction: our unity is becoming more difficult, but the more essential. And what holds for Europe as a whole, holds first and foremost for the Franco-German friendship: to divide us would be to condemn us.

At the ECB Governing Council, we are working alongside Christine Lagarde to reduce inflation. We may sometimes debate about the path of monetary policy - this is not our subject here - but we know how to overcome our differences through a dialogue of trust. Today, we want to talk more broadly about financial architecture in Europe. Despite the urgency of the crisis, not only firefighters are needed, but also architects. It is about both the capacity to finance the energy transition and to consolidate the success of the euro. 80% of our fellow citizens feel attached to the euro: this historic level of trust in the crisis is reassuring but it also reminds us of our duty.

The digital and green transformation of our economies, the ageing of our societies. These are structural challenges that will remain with us for long. Challenges that will require massive investment, which needs to be financed primarily by private capital.

That is why – as early as 2015 – the European Union launched the capital markets union (CMU) initiative. Its aim is to mobilise private capital and incentivise cross-border investment by removing regulatory barriers. In 2020, the European Commission adopted a new action plan. Its implementation should help turn Europe into a genuine single market for financing.

Further progress would benefit the citizens of Europe. Thus, we should consider the project less from a technical standpoint, the “how”, and more as a matter of great importance for the economy as a whole. We want to focus here on the “why”, and call for a stronger collective will.

Capital market integration may contribute to the preservation of financial stability. First, by fostering the geographical diversification of funding sources. Second, by strengthening private sector risk sharing through the development of equity funding. The degree to which private risk bearing cushions economic shocks is much smaller in Europe than in the United States.

Events like Brexit, the pandemic or, most recently, Russia's war against Ukraine may have delayed efforts in this area and pushed the issue somewhat into the background. On the contrary, we must more than ever accelerate on energy transition, and therefore we need the financial resources provided by a Green CMU.

Moreover, CMU can be an asset in a joint European strategy for competing with other regions of the world. It's a matter of European strategic autonomy. Given the need to boost growth in the EU and at the same time to manage the green and digital transformation, we have to become more attractive to domestic and foreign investors alike. Our corporate financing via equity and debt securities is still underdeveloped by international standards. To make European capital markets more appealing, harmonised, reliable and less complex legal foundations are key. Accordingly, we support the establishment of a European single access point (ESAP) as an information platform for international investors.

Due to a lack of venture capital, start-up firms continue to face funding problems in Europe. With a harmonised, broader and deeper financial ecosystem, CMU will give them the opportunity to significantly improve their financial position. It can make our economy more innovative and at the same time offer attractive investment opportunities.

As regards access to capital markets, small and medium-sized enterprises (SMEs), in particular, need to catch up. Securitisations of SME loans could build a bridge between bank financing and the capital market.

Completing the capital markets union is certainly a long-distance run. To make it a success, it is important to set the right course now. A competitive and integrated financial system will help Europe to master the challenges we are faced with.