



Is the euro area ready for green transition and digitalization challenges?

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Is the euro area economy ready for the challenges associated with green transition, digitalization and changing geopolitical landscape? What are the key investment gaps that threaten to impede progress?

'With the Draghi report just published, the competitiveness question is at the centre of the discussion in Brussels, and will be a core objective for the second von der Leyen Commission. The question is how to translate this into concrete actions.

How do the financial landscapes of the euro area and the US compare when it comes to the needs of the modern economy?

Over the last 5 years, the EU has adopted a very ambitious legislative agenda, covering the digital and green transition, strengthening the EU's strategic autonomy and its financial markets. This has led to calls for a regulatory pause, and for strong enforcement under the new European Commission.

Are banks, capital markets, and other sources of financing perfect substitutes or do they each serve distinct roles in financial intermediation? How can each of these sources best contribute to a healthy and inclusive financial system?

Specifically as concerns financial markets, the expectation for the next European Commission will be to unify capital markets further, and to integrate supervision, as called for in the Letta and Draghi reports. This is one of the main reasons for the stagnation of Europe's capital markets: prisoners' dilemmas or collective choice problems between EU member states. Europe needs more capital market financing to complement bank finance. Market finance has different functions, the selection of investments differs, and is more adapted for risky start-ups and stimulate innovation.

What are the critical supranational actions needed to bolster the euro area's financial sector?

Other actions to stimulate the financial sector concern consolidation of legislation, and returning to principles-based of regulation. Detail in EU finance rules have become too burdensome, and should be limited based on principles. Mutual recognition between member states needs to be enforced, as harmonisation has gone far enough.