



Uniting for prosperity: The journey towards integrated EU capital markets

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Since the onset, progress with capital market integration has been driven by economic and political drivers. And the former often influenced the latter. Economically, the EU, including the euro-zone Member States, is constrained in its growth by inadequate size and depth of its capital markets. 'Capital markets' in plural - because today the EU continues to be represented by a patchwork of local capital markets with a varying degree of development, but no developed, deep and liquid, EU level capital market that would service the EU economy. These local markets individually cannot compete with their US or increasingly Asian equivalents. And that means bad news for EU productivity and growth.

Productivity needs to be fuelled by innovation and innovation requires risk capital. We are realising it much more now with the green and digital transitions that hinge upon innovation driven by companies in deep-tech and cleantech. Today the EU has a big gap in private investment that EU capital markets need - but are unable today - to fill. This should be the most potent driver for integration - creating one single deep and liquid capital market that builds on the strengths of individual markets but multiplies them by creating economies of scale, making them all function as one. Only

such market will be able to service adequately our economy and with it – our political priorities.

A decade of reforms: progress and hurdles to overcome

A lot of capital market reforms have been passed over the last ten years, but they are hardly (or at least not yet) reflected in numbers on the ground, such as in market capitalisation or new equity/debt issuances.

Among the various elements, I would like to mention the creation of a single digital repository for EU company data (ESAP) which would tackle informational asymmetries for cross-border investors. I would also like to mention the initiative rendering cross-border tax procedures more digital and efficient for cross-border investors, tackling one of the most deep-rooted and complex barriers in the area of taxation. Finally, I would like to bring up the consolidated tape that will seek to consolidate – virtually – the fragmented EU trading landscape and liquidity across multiple trading platforms. All of these elements, once fully implemented, should make a difference in terms of how investors make decisions and how financial – and with it economic - activity is undertaken in the EU.

Nevertheless, progress with capital market integration had been slower than what it could have been. Despite our efforts, we did not succeed in putting in place more converging, more integrated supervision of capital markets in the EU. We are also faced with significant difficulties when addressing the issue of a conflict of interest in the area of retail investment. Finally, we have not fully exploited the potential of supplementary pensions for releasing the strain from national budgets, providing complementary income to citizens in retirement and, importantly, for massively upscaling EU capital markets.

The main reasons for the lack of progress in some of these areas are the opposition to delegating more decision making to the EU level or significant vested interests of the incumbent financial industry. In order to overcome those, we need to have convergence of wills and trust of Member States that a single integrated market for capital will benefit all – i.e. small and large. In fact, smaller Member States may benefit

even more due to economies of scale and new opportunities that would become available to their companies and citizens. Finally, we should stop thinking as 27 individual Member States and start thinking as the European Union.

A better-integrated EU capital market is one of the topics experts will discuss at the Economic Conference 2024, hosted by Latvijas Banka and SUERF – The European Money and Finance Forum in Riga on October 2. Join the conference in person or watch it online! To attend in person, please register for an invitation at <https://conference.bank.lv/>.