Q&A

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Behind every challenge lies an opportunity: how the financial sector can support EU competitiveness in difficult times

During challenging times, the European Union is acting to support a competitive, resilient and sustainable financial system.

The EU's financial sector has recently weathered major shocks brought by the Covid-19 pandemic and Russia's war of aggression against Ukraine. The comprehensive reforms adopted after the 2008 global financial crisis played no small part in this resilience.

Still, there is no room for complacency. Higher inflation and rising interest rates present different challenges to financial stability than 'low-for-long' interest rates. The economic outlook remains uncertain, and significant market corrections are possible, as shown by the difficulties experienced by banks in the US and Switzerland in March.

On top of this, the EU economy faces challenges on competitiveness. Energy prices have risen, increasing costs to businesses. There is a shortage of skilled workers in key industries. And there is the challenge presented by the transition towards a net-zero economy.

To support the competitiveness of EU industry, in February the European Commission revealed a Green Deal Industrial Plan. This is based on four pillars: a simplified regulatory environment, speeding up access to finance, supporting skills, and open trade for resilient supply chains.

We've moved quickly to put this plan into action. On 16 March, the Commission proposed the Net-Zero Industry Act, to help the EU scale up the manufacturing of clean technologies. We also put forward the Critical Raw Materials Act to support raw material supply chains for those clean technologies. In a Communication published the same day, the Commission outlined its long-term plans to foster competitiveness, supporting better access to private capital and investment, research and innovation, circularity, and digitalisation.

The Green Deal Industrial Plan will require investment. On 9 March, the Commission adopted temporary changes to the state aid framework, allowing Member States to grant State aid in sectors that support the transition to net-zero. However, not all Member States have the same ability to grant State aid, and we need to pay attention to the level playing field in the Single Market. We also need to step up EU funding and utilise REPowerEU, the InvestEU Programme and the Innovation Fund. In addition, a future European Sovereignty Fund would have a major role to play to crowd in private investment in critical and emerging technologies for the green and digital transitions.

But when we talk about the need for investment, it's important to note that public money will not be enough. We need private financing too. That's where the Capital Markets Union comes in.

European capital markets are too fragmented along national lines, with companies in smaller markets losing out on access to a large investor base and finding it harder to get long-term capital. The Commission has a number of initiatives that are about tackling obstacles to market integration, notably in the areas of taxation and non-bank insolvency.

Europe has one of the highest individual savings rates in the world, but retail investor participation in capital markets remains comparably very low. The Commission will soon come out with a Retail Investment Strategy to help retail investors make the most of their money.

Other initiatives to support the Capital Markets Union include a one-stop shop for financial and sustainability-related company information, the European Single Access Point, and a new EU Listing Act to make listing easier, especially for smaller companies.

Finally, the co-legislators recently agreed changes to the regulation on European long-term investment funds (ELTIFs). These changes will make it easier and more attractive for fund managers to offer ELTIFs, and for investors to access them. This will directly contribute to providing more long-term private capital for unlisted companies, listed SMEs, and sustainable energy, transport and social infrastructure projects.

We also want to help investors make informed choices, especially around sustainability. The EU sustainable finance framework can help prepare EU companies and financial institutions to face the challenge of the transition to sustainability. And that preparedness can translate into a genuine competitive advantage.

In just four years, the EU has created the most advanced sustainable finance framework in the world, helping reorient capital flows towards the green transition.

We have the EU Taxonomy, which provides common definitions for sustainable economic activities. We are developing the Taxonomy further by adding activities that can contribute to four environmental objectives: the circular economy, biodiversity, pollution and water.

We also have the Regulation recently agreed by the co-legislators on the European Green Bond Standard. This will create a gold standard for companies and public authorities that want to use green bonds to raise funds for their transition.

And then there is the Corporate Sustainability Reporting Directive (CSRD), which is putting sustainability reporting on the same footing as financial reporting. Companies will have to get an assurance opinion on their sustainability reporting. This will improve the reliability of the information and reduce the risk of greenwashing. The information reported will be made available in a digital format – making it easily accessible and supporting our agenda in digital finance. When adopting the European Sustainability Reporting Standards under the CSRD, we are mindful of providing investors with useful sustainability-related information, while not creating excessive administrative burdens on companies.

Digital finance has a key role to play in shaping a more competitive, sustainable, resilient economy – and a more inclusive, modern, prosperous society. We need to make the most of these new opportunities, while managing the risks. We want to help consumers access digital services across the single market. And we want to help European financial companies scale up their digital operations across the single market as well.

We're supporting digital identification across the single market – the Commission has proposed a European Digital Identity, which would give EU citizens access to a digital wallet that works across the European Union. We've also proposed harmonising Customer Due Diligence rules.

The Commission is preparing a legislative proposal on Open Finance. Open Finance would allow a broader range of data to be shared to allow more tailored financial products and services, while putting users of financial services, whether they are consumers or businesses, in control of their data – how it is used and who can access it.

The European Union is setting clear rules for previously unregulated crypto-assets. The Markets in Crypto-Assets Regulation is expected to be published by the end of this spring. It will give legal certainty to market participants and promote innovation in the market. But it will also ensure that crypto-assets and crypto-asset service providers are subject to regulation and supervision to ensure consumer protection, market integrity and financial stability.

The Distributed Ledger Technology pilot regime entered into application in March. This pilot allows market participants to experiment with this technology in a safe environment, which is expected to bring more efficiency in trading and post-trading processes. It will also allow regulators and supervisors to learn from the experience – and we may make changes to EU legislation depending on what we learn.

We are also working closely with the European Central Bank on a possible digital euro. This would make central bank money available to people and businesses in digital form – supporting the European economy in the digital age. The digital euro would be a complement for physical cash. And it would co-exist with private means of payment.

Digital finance brings new risks, as financial institutions depend more and more on IT services and software. That makes them vulnerable to threats like cyber-attacks, especially in the current geopolitical context. The Digital Operational Resilience Act entered into force in January. This will help ensure that all financial firms have safeguards to mitigate against cyber-attacks and other risks to their digital resilience.

In the European Union, we want a financial sector that is both competitive and that supports the competitiveness of the wider European economy. That's the reasoning behind the EU financial services agenda, based on resilience, sustainability and digitalisation.