



## Q&amp;A

## ERIC LOMBARD

Minister of the Economy, Finance, and Industrial and Digital Sovereignty, France

## We need quick, concrete and ambitious EU responses to regain competitiveness

What is your view on the objectives and actions set out by the European Commission in its Competitiveness Compass? Are these the main priorities for enhancing the competitiveness of the European economy? What is the right way and method to achieve this?

Let me first commend the European Commission for this competitiveness Compass. The assessment of the situation is fair and I fully agree with the Commission's President: Europe has everything it needs to succeed in the race to the top. At the same time, we must fix our weaknesses to regain competitiveness. The Competitiveness Compass transforms the excellent recommendations of the Draghi report into a more concrete roadmap. It also echoes to the key conclusions of the Versailles (2022), Grenada (2023) and Budapest (2024) declarations.

The priorities are clear. We need quick, concrete and ambitious EU responses to regain competitiveness. It calls for more market integration, for investments in the technologies of the future, and for a European preference for strategic sectors.

More specifically, on industrial policy, the recently announced Clean Industrial Deal which underlines the need to integrate our industrial, trade and competition policies and the Savings and Investments Union strategy will help us moving forward, keeping in mind our objectives of competitiveness, simplification and the spirit of the European Green Deal.

On trade policy, the EU policy must strive a good balance between openness and assertiveness. The EU must be ready to amend its trade policies toolbox if needs be while making sure any trade agreement remains sustainable, balanced, ambitious and in the interest of the EU and European companies.

The recently proposed simplification package is the right way forward. The European Commission has proposed bold changes to foster a favorable business environment and ensure that companies, especially SMEs, can thrive. The European

Parliament and the Council must ensure that this first simplification package can be adopted and implemented as fast as possible. This is crucial to demonstrate that the EU is able to act when it is most needed.

How to foster more innovation in Europe? How can we retain the surplus European savings (around 300 billion euros leave Europe every year) in order to finance innovative projects and firms in Europe?

European innovation cannot be financed without better channeling European retail investors' abundant savings —€35 trillion— towards European companies. A significant share of European savings is ultimately placed in foreign assets, with a third going to non-EU assets. Besides, almost half (47%) of European financial savings are allocated to liquid and guaranteed products such as bank deposits and life insurance, which fails to provide the long-term financing our economy needs.

In this context, defining criteria for a European label for long-term saving accounts was a key proposal of the Noyer report. These criteria could include a long-term horizon, an absence of permanent capital guarantee, a nationally-defined favorable tax treatment and a minimum level of investment within the EU. Such a label could provide European investors with an attractive and trusted framework to engage in European capital markets. Applied on pre-existing national savings wrappers or newly created ones, the label would avoid the hurdles met by the Pan-European Pension Product (PEPP), while channeling inflows directly towards the equity funding needs of our companies, fostering innovation, competitiveness and growth in Europe.

As recommended by the Letta and Draghi reports, mobilizing savings to finance innovation is essential. Thus, it is crucial to create the conditions for increased investment by institutional investors, such as insurers and pension funds, in European innovation financing. Europe already has a strong initiative in

this area: the European Tech Champions Initiative (ETCI), which has already deployed 3.5 billion euros to support late-stage tech scale-ups. Its second phase, ETCI 2.0, will help mobilize private investors in European tech. We have proven models that work—now is the time to scale them up.

Likewise, there is now a growing concern of the need to strengthen our defence industry. Here too, we must explore new models that allow European savers to help finance our defense industry. Defence is a powerful driver of innovation, particularly through dual-use technologies, which benefit both civilian and military applications. Strengthening this link between innovation and strategic autonomy is essential for Europe's future.

### Can the political momentum around the SIU and the current geopolitical context foster progress on securitization, supervision, and savings mobilization?

The various reports, and numerous discussions between EU leaders and finance ministers during the past year have placed the Capital Markets Union, now called Savings and Investments Union (SIU), at the top of the European agenda.

In addition, the outbreak of war on Europe's doorstep also requires substantial investment in the European Defense Industrial and Technological Base. EU defense spending increased only by 20 % between 1999 and 2021, compared with 66% for the United States. Those priorities, recently highlighted by the ReArm Europe plan, underline the urgent need to mobilize private investment to achieve common strategic goals and to complete a financial architecture which effectively support our ambition to foster growth and innovation in the EU.

While this high level of political commitment, and the large communication efforts regarding the Savings and Investments Union are encouraging, we are facing a major risk: that those ambitious declarations fail to translate into concrete results for businesses and citizens.

There is a strong consensus between recent high-level reports on the SIU that strengthening the central supervision would be a key element. There is also support on this issue from the European Parliament, the European Commission, the European Central Bank and increasingly, from some financial markets' participants. The current fragmented supervisory framework creates significant costs for market participants, in particular for the largest and most cross-border players. Better coordinating national-level supervisors is useful but is not enough. A single rule book is much less useful when markets participants potentially 27 different ways to apply it. To make swift progress, we should first focus on the largest players, such as market

infrastructure, and institutions that are not currently supervised at national level such as crypto-asset platforms.

Another necessary major step is the relaunch of the EU securitisation market with a legislative proposal expected by the end of this semester. This reform is long overdue: indeed, while this market has historically been safe, it has not recovered after the great financial crisis, with public securitisation issuances down by 80 % since 2007 contrarily to the US, the UK or other regions that continue to use securitisation effectively. This has created a twofold problem: on the one hand, Europe cannot fully leverage this important tool to finance its green and digital transitions; on the other hand, European banking institutions are less competitive on the global stage, making our continent dependent on third-country actors for its financing. Thus, we expect an ambitious legislative proposal from the Commission, including all potential ways to strengthen the market.

### How can Europe reverse the decline in competitiveness of its pan-European banks?

As a general remark, I will note that it is not my role to comment on specific industry issues, such as banks' market shares or their strategic positioning.

This being said, I believe that European regulators should pay closer attention to not penalizing European players in comparison to their international counterparts. This means for instance that we should try to make our banking framework simpler and more stable, so as to minimize the administrative burden for the industry. But more importantly, this also means that European banking regulation should maintain a level playing field with other jurisdictions, especially regarding the implementation of Basel standards.

As of today, one important drag on competitiveness for European banks lies in the over fragmentation of our banking market. Banking fragmentation in Europe takes various forms, but one key aspect is how liquidity and capital rules are being enforced for paneuropean banking groups with essentially no recognition of our Banking union. This in turn prevents such groups from deploying their resources freely at the European level and benefit from true economies of scale.

I am sure some will point to other factors in order to explain the decline in some of European banks' market shares, such as the macroeconomic context or an underdeveloped securitization market. My last suggestion would therefore be to call for an in-depth review of the competitiveness of European banks, which would grant European regulators with a more accurate vision of what is at stakes and which policy actions can be considered to mitigate it.