

Economic and financial priorities for the new Commission

In the face of major geopolitical risks and economic and financial challenges, the speakers in this final session defined the conditions for a European revival and the priorities for revitalising Europe.

1. Europe faces unprecedented challenges

1.1 Amid war and rising political tensions, Europe must pragmatically reassess its priorities

A Member of the European Parliament emphasised that Europe's priorities have to be readjusted in light of the political and geopolitical realities. The best illustration of this is the fate of the so called Green Deal, which was the flagship programme of Ursula von der Leyen's first mandate. After the massive borrowing in response to the pandemic and Putin's aggression, the programme was given a new name: the Clean Industrial Deal. The aim is now to save the planet while preserving competitive jobs. The goal of climate neutrality by 2050 has not been abandoned, but there has been a pragmatic revision of the rules on climate and migration. The agenda is now focused on simplification and deregulation, as a result of Mario Draghi's influence.

The drive for simplification has its merits, but Europe is living in the shadow of war. The challenge is how to finance defence when member states' debts exceed 80% of GDP. Finding a solution to this problem will require creativity. Most of the €800 billion for Ursula von der Leyen's ReArm Europe plan will come from member states. The spending limit for triggering the excessive deficit procedure (EDP) has been raised by 1.5% of GDP. It is clear that private capital needs to be mobilised alongside public funding. The EU immediately launched the Savings and Investments Union (SIU) initiative to revive its underdeveloped capital markets. There is now a race against time to finance defence in an indebted Europe.

1.2 Europe is facing major budgetary challenges

A Member of the European Parliament explained that the big budgetary challenge is how to repay Europe's outstanding subsidies. Nearly €400 billion in subsidies is due to be repaid after 2027. The assumption was that member states would repay these grants with own resources, but there has been no progress on this point. There is no appetite to increase taxation for fear of provoking a Eurosceptic reaction. There is also the challenge of how to finance defence, which is a completely new priority. For 20 years, the EU was a pacifist project. NATO was for defence and the Union was for progress. The budget negotiations themselves are another challenge. Ursula von der Leyen has a tendency to seek to control everything. She wants to redesign cohesion

with decentralised national plans, which the regions of Europe do not want.

1.3 Europe must rethink its global role and strengthen its strategic and financial autonomy

A Member of the European Parliament highlighted the importance of proper analysis. Europe faces more than just Donald Trump. There is a terrible war in Ukraine, recent developments in the Middle East and Turkey and continuing instability in Africa. On the surface, these issues do not seem related to financial services, but everything is interlinked. Europe needs to think more deeply about the role it wants to play. There are a number of challenging issues. During the last term, there was extensive discussion about how to decouple from China and become less dependent on China for trade. The initiative to create a digital euro is really a discussion about decoupling from the United States. The worrying recent developments in equity and bond markets have demonstrated the potential value of such a move.

It is essential to understand that not every problem can be solved by regulation. The Union needs to invent other tools for cooperation. It must adopt a broad strategy that takes into account the importance of the real economy and the financial world. Europe has very competitive industries, but it is unable to provide the financial services that companies want. The Savings and Investments Union (SIU) is a welcome initiative, but it will not achieve a truly European approach.

1.4 To make real progress, Europe must go beyond unanimity and adopt enhanced cooperation

A Member of the European Parliament stressed that the Union is reaching conclusions that are not being adopted unanimously. The other instruments in the Treaty, such as enhanced cooperation, need to be developed. Hopefully, the new German government will take this approach forward. Member states should be free to move forward and it should always be open to others to follow. The Commission can play a key role in making progress through better cooperation. People like to say that Europe is the answer. Europe must now deliver, and not just through regulation.

The European Union started with a small number of nations, but it has come a long way. The euro was not created with the participation of all member states; now it is the overwhelming majority. Member states that would never have considered joining NATO are doing so. The Schengen area was not created on the basis of a Commission proposal. Even the liberalisation of the telecommunications market was the result of a judgment of the European Court of Justice. The momentum to achieve these goals was properly harnessed. There is now momentum to achieve Europe's goals, but it will not be possible to wait for the agreement of all 27 member

states. Enhanced cooperation will allow the Union to move forward and should be launched without delay. The others will join when it is clear that it can deliver.

2. The conditions and priorities for revitalising Europe

2.1 Rethinking monetary and fiscal policy

The Honorary President of Eurofi stressed the importance of reflecting on Europe's fundamental problem. There is a parable in the Gospel of Luke about a man who wants to build a tall tower. He counts the cost of the tower before he builds it because he would be ridiculed if he started something he could not finish. The EU is losing ground every day to the rest of the world, especially the US. It is losing out in productive investment, productivity growth, research and innovation. The EU needs to reflect on what it needs to do to build the tower it is erecting.

2.1.1 A prolonged period of very low interest rates has discouraged productive investment

The Honorary President of Eurofi (Jacques de Larosière) explained that productive investment has fallen over the last 20 years because the level of long term savings in Europe has deteriorated as a result of interest rates being too low for too long. Low interest rates discourage long term savers from holding long term assets, which could be used to drive the energy transition and environmental improvements. The use of low interest rates has created a liquidity trap, just as Keynes warned. If long term savers are not adequately rewarded, they will not save for the long term and will keep their money in more liquid forms. The disappearance of long term savings is the root of Europe's decline.

2.1.2 Restoring order to the public finances will create the budgetary space to fund Europe's environmental, defence and innovation objectives

The Honorary President of Eurofi emphasised that Europe must restore order to its public finances or it will not be able to catalyse the immense resources needed to fund its objectives around ecology, energy transition and rearmament. If the EU continues to ignore fiscal discipline, there will be a financial crisis. In a few years' time, France will have to spend almost €100 billion on debt service each year. This sum will not be spent on research, defence or the younger generation. It will be squandered on the elderly with no regard for the future. The second way to bring order to the fiscal system would be to create a credible stability pact with more selective objectives than the current system of public costs.

2.2 Deepening the single market

2.2.1 Progress on deepening the single market and creating a European safe asset has been stalled by institutional reluctance and fragmented regulation

A Member of the European Parliament highlighted the recent International Monetary Fund (IMF) report which suggested that the European markets suffer from implicit tariffs of 40% for goods and 110% for services. There is no

more important priority than removing these national barriers. National regulation and national barriers can only be removed by European regulation. There should be more European regulation to supersede national regulation. Eliminating these implicit tariffs would reduce bureaucracy across the Union. The euro area needs a European safe asset, as recent developments in the United States have shown. This safe asset should be part of the EU framework, but the EU does not seem able to make progress on this task. The Parliament, the Commission and the financial industry are obsessed with European regulation. The Commission should consider whether it needs to take a different approach during this mandate. The Commission does not seem committed to making progress on the single market. The new SIU proposals do not tackle the national barriers to the single market.

2.2.2 The focus must be on eliminating implicit tariffs in the single market

The Chair noted that the implicit barriers highlighted by Mario Draghi and the IMF are the Union's biggest challenges. Addressing them will require more European regulation, stricter enforcement by the Commission and a much quicker enforcement process.

A Member of the European Parliament agreed, adding that the European People's Party (EPP) was right about the need to reduce administrative burdens and increase EU competitiveness, however, the discussion around European regulation always focuses on cutting the wrong regulations. It remains to be seen whether the actions of the last mandate will prove effective or not. The omnibus proposal is now on the table and needs to be implemented. It would be foolish to discuss changes to EU regulations endlessly. But, most importantly we should be thinking about how to remove the tariffs identified by the IMF.

2.2.3 A new approach is needed to overcome fragmentation in key sectors

A Member of the European Parliament commented that the lack of the single market is felt in some areas but not in others. It is simple to book a flight but extremely difficult to book a train. This is not because of regulation; it is a market failure caused by member states treating rail as a matter of national sovereignty. The EU is proud of roaming price caps, but the US has five nationwide telecoms providers; Europe has more than 100. There is already European regulation to deal with this problem, but member states insist on keeping the regulation of these sectors in national hands. Mario Draghi's proposal to transfer some supervisory activities to the European level will not solve the underlying problem. All 27 member states do not need fully equipped infrastructure for all requirements, even in the area of cross border trading. A new way of tackling this challenge must therefore be found. Progress will have to be made by a smaller group of member states, perhaps through a new Franco German initiative.

2.2.4 To overcome the mistrust of EU institutions, a coalition of willing countries must choose to deepen the single market by sharing sovereignty and pursuing cross border solutions

A Member of the European Parliament the key to overcoming the non tariff barriers in the single market is

the member states, which do not trust the institutions they have built. The system of checks and balances leads to excessive complication. The result of the discussions on crisis management and deposit insurance (CMDI) illustrate the problem. Because member states did not trust the European institutions, they demanded national checks and balances at every step, which became so complicated that the proposal was unworkable. This mistrust will not be overcome by regulation. It will only be overcome by a coalition of the willing choosing to trust each other and cede a small part of their sovereignty to a cross border institution. This is what will put the Union on the right track.

The Chair remarked that a crucial element of this debate, which was absent from the Letta and Draghi reports, is the macroeconomic evidence of the benefits of acting on the European level. These debates can only be won if the benefits are spread across all member states. Indeed, the Treaty needs to be used to the fullest extent possible. De minimis or predetermined solutions will only lead to excessive complexity which has to be simplified later.

2.3 Europe must find a way to channel excess savings into productive investment

A Member of the European Parliament agreed that easy money and low interest rates discourage structural reforms. Europe needs to channel its €10 trillion in bank deposits into productive investment. The problem is one of mentality and economic culture. The EU cannot replicate Silicon Valley. That was a bottom up technological revolution, albeit with some help from the federal government. The 'visible hand' of Brussels could be surprisingly helpful, however. Usually the phrase 'visible hand' means regulation. The story of China is the opposite of Silicon Valley. The visible hand of the Communist Party enabled the Chinese technological revolution. It seems risky to rely on the visible hand of Ursula von der Leyen, but there seems to be no other way to upgrade the capital markets from the bottom up and transform them into the SIU. Indeed, the only way to make progress will be not to count on all 27 member states but to form a coalition of the willing.

Another Member of the European Parliament noted that most of the SIU proposals focus on how to move deposits into the capital markets rather than how to consolidate the single market, which is a much more urgent priority if we want an European capital market. Tackling national barriers in the single market is the only way to improve competitiveness in the short term. The trade off between growth and regulation can be broken with greater consolidation of the single market. The Parliament is not in the way; the Commission is not as committed as might be expected; and the Council's position is well known.

2.4 Rebuilding trust and seizing the momentum

2.4.1 Deepening trust and cooperation between likeminded economies is essential to the EU's future

The Honorary President of Eurofi observed that the key priorities are for overindebted countries to restore order to their finances and for all member states to work together to implement EU strategy. The big capitals need to be willing to work together and trust each other. Today,

there is no cooperation between Germany and France, which for many years was the pivot of the Union. The answer is not more regulation. The answer is to work together and act together.

The Chair noted that the importance of trust was highlighted by President Obama's recent comments on the current situation in the United States. There is a total breakdown between Republicans and Democrats. They do not simply disagree; their disagreement has reached the point of hatred. This breakdown shows how the world should react to recent developments in the US. The likeminded countries of the world must work together, trust each other on the basis of democracy and law and refuse to allow the multilateral system to be destroyed. It may even be necessary to create new multilateral institutions to facilitate greater cooperation, as the United States did in previous eras.

The issue of trust lies at the heart of the banking union. There is no trust between countries. This fact was not widely discussed at the conference, but it prevents progress being made on the hugely important issue of competitiveness. The discussions during the conference have shown that there is broad recognition of the need for Europe to move forward at this crucial geopolitical moment. There is a consensus on the need to remove barriers and to trust each other to create economic growth and prosperity. If this lack of trust continues, it will be Europe's undoing. It will eventually cause a financial crisis.

2.4.2 Europe must seize the momentum and accelerate all its reforms

The Chair observed that there is broad support for the substance of the Commission's SIU proposals, which rely heavily on member states. The Commission has been urged to speed up the implementation of these proposals. The securitisation proposals will be an early test of the package. The securitisation disasters of 2007/08 originated in the US. This legislative proposal on securitisation will test whether the EU can repair a key policy area to improve the competitiveness of the banking system.

On Franco German cooperation, the new German Chancellor and government have been extremely bold. Their actions could be a decisive catalyst for a renaissance that will include Spain, Poland and every other country. While everyone agrees on the need for simplification, the devil is in the detail. It will not be a silver bullet for economic growth. Removing the internal barriers in the single market would have a much stronger economic impact. The development of the digital euro is an area where Europe is ahead of the US; it seems to be an opportunity for the Union. The European Union has the opportunity to bring together likeminded countries that believe in the rule of law and democracy to act together in the face of the seemingly arbitrary decisions of the current US administration.

2.4.3 Clear deadlines, strong institutional coordination and bold industry support will show that Europe is on the move

The Chair emphasised that the Union also needs to address some very worrying issues. The European political agenda needs deadlines. The use of deadlines and

timetables stimulates the political process. It puts pressure on the Council and the Parliament, and it can create momentum if there is a strong control and monitoring mechanism. There should be agreement between the three institutions on the content and timing of policy measures. This would send a very strong message to the international community that Europe is on the move. International capital is flowing out of the US. If Europe creates momentum, it will flow here. All players in the financial industry and the regulatory and supervisory community have a huge role to play in this task.

The key issues around interest rates and fiscal issues also need to be addressed. Some countries will have to increase their defence spending dramatically. Finally, the members of Eurofi also have an important role to play.

Political leaders like nothing more than hearing that industry and consumer organisations support them. Industry needs to be a little bolder in saying, loudly and clearly, that it fully supports what the Commission and the European institutions are doing. The next Eurofi meeting will take place in Copenhagen in September 2025. Hopefully, there will have been real progress in the intervening period. The world wants Europe. International investors feel comfortable with Europe and its values.

The Chair thanked Didier Cahen and the rest of the Eurofi team for their excellent organisation of the conference before concluding the panel and closing the High-Level Seminar 2025.