

Joachim Nagel: Remarks on Enrico Letta's report "Much more than a market"

Remarks by Dr Joachim Nagel, President of the Deutsche Bundesbank, on Enrico Letta's report "Much more than a market", at the panel discussion "Empowering the Single Market – Opportunities and challenges", Frankfurt am Main, 7 May 2024.

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1 Introduction

Ladies and gentlemen,

Thank you very much for giving me the opportunity to respond to Enrico's excellent presentation.

Enrico, early on in your report, you describe the "most glaring paradox of EU infrastructure: the impossibility of travelling by high-speed train between European capitals".

Despite this shortcoming, you managed to criss-cross the continent to hold hundreds of meetings with thousands of people: Thanks a lot for that!

And I was very happy that you also stopped in to talk with me along the way.

The result of your journey is an impressive report on how to strengthen the Single Market for the benefit of all Europeans.

Reducing barriers to entry, strengthening research and innovation, and supporting market funding for the necessary green and digital transformation should be at the top of the EU's economic policy agenda. Many of the proposals and roadmaps presented in the report lay key groundwork for the next Commission's work programme.

2 Capital Markets Union

When the two of us met in March, our discussion centred around the Capital Markets Union (CMU) – or as you call it, the "Savings and Investments Union".

Indeed, I have been advocating for the CMU for many years. Unfortunately, progress is very slow. There have been calls for capital market integration for so long (since 2015, in fact), and virtually no one is against the CMU.

One reason why the CMU has not yet been achieved is that there is not just one measure that will give us a single European capital market. Rather, a whole package of measures is needed, which would, in some cases, have a strong impact on national law.

Let me give you an example. Corporate insolvency rules are a matter of national law. However, the coexistence of 27 national insolvency laws is an impediment to cross-border investment.

Of course, it would be good if we could at least harmonise the rules. But that would require a greater willingness to compromise and to put national views to one side.

Federal Chancellor Olaf Scholz recently remarked that "perhaps there are 27 times the best insolvency law in the world. But perhaps it would be better if it were the second best, but the same for all 27".¹

I think this is the attitude we need. Otherwise, we will never achieve the CMU.

As the leaders of Europe increasingly recognise the relevance of this topic, I am confident that we will make progress.

3 The role of governments

Generally speaking, I believe that setting good framework conditions is the best thing governments can do to support the Single Market. And before they resort to direct market interventions, policymakers should double-check whether there really is a robust, compelling case of market failure or high security risks.

I do not see much merit in giving incentives on the fiscal side to increase subsidies and state aid. And you won't be surprised that the Bundesbank is sceptical about extending the scope of joint borrowing beyond the NextGenerationEU programme.

While that programme was certainly an expression of solidarity during the pandemic, its results so far have been rather mixed. The European Court of Auditors, for example, has expressed serious doubts about the efficiency and growth-enhancing effects of grants and loans.

NextGenEU was an understandable response to the pandemic emergency. But given the current level of integration, it should remain a one-off exception to the rule that the EU must not borrow money.

We do not consider common debt necessary for defence purposes, either. Higher defence spending is entirely possible within the usual budgetary processes. There's no denying, however, that the EU is currently facing major geopolitical challenges and needs to become more robust.

Strengthening the Single Market and making Europe more prosperous is an important contribution to increasing our resilience.

4 Completing the Single Market

Fortunately, your report contains a whole range of ideas, the implementation of which would make Europe more sustainable, more competitive and more prosperous.

More than thirty years on from its launch, many have forgotten the extent to which the Single Market has increased our wealth. The merit of your report is that it pinpoints shortcomings in the existing internal market and shows how these can be eliminated.

Indeed, there is – as you note – a lack of integration in the electronic communications and energy sectors. Both markets are still very fragmented.

We don't have a European telecommunications market. Rather, there are a large number of national operators with relatively few customers.

Nor do we have a common energy market. The energy shock following Russia's attack on Ukraine has made this weakness plain to see.

A more integrated market for grid-dependent energy sources would improve efficiency. A good network infrastructure would also help to integrate renewable energy into the electricity system and thus achieve the EU's climate policy objectives.

What is more, the green transformation of the economy requires substantial investment. Which is, by the way, one reason why we need the Capital Markets Union so urgently.

When it comes to trade in services and the digital sector, there is also a lot to do.

Services are by nature more difficult to trade over long distances than goods. But the high level of national regulation is another reason why there is so much less cross-border trade in services than in goods.

However, digitalisation provides a great opportunity to overcome the hurdles of physical distance. It has the potential to give the Single Market a fresh boost.

I congratulate you, Enrico, on your report. It contains many valuable suggestions – not least regarding digitalisation. I hope that it will provide impetus for necessary and meaningful measures.

¹ Speech by Federal Chancellor Olaf Scholz at the 23rd German Banking Congress on 23 April 2024 in Berlin