Luis de Guindos: Strengthening European financial markets to ensure a more resilient future

Keynote speech by Mr Luis de Guindos, Vice-President of the European Central Bank, at the Joint Conference of the European Commission and the European Central Bank on European Financial Integration, Frankfurt am Main, 18 June 2024.

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It is a pleasure to address you once again at this annual joint conference on European financial integration. Over the years, this platform has become an important forum for discussing the pivotal issues shaping the financial landscape of the EU.

The discussions and analysis we heard in today's sessions provide valuable perspectives on how we can foster financial integration. The conference is also very timely, coming just before a new European Commission will have to shape the policy agenda for the coming years. Financial integration and financial stability are key to ensuring a resilient and prosperous future for Europe.

Developments in financial integration

Despite the resilience shown during the recent unprecedented times – marked by significant global geopolitical and economic shocks – progress towards greater financial integration in the euro area has been disappointing overall.

Over the past two years, price and quantity-based measures of financial integration have declined substantially. In fact, we are back to the levels seen at the start of the monetary union, and this is despite the significant legislative efforts made over the past decade. Cross-border financial market activities and risk sharing have not recorded any growth.

Financial integration has shown little progress in terms of cross-border bank lending and equity markets. Yet these markets are key to helping small and medium-sized enterprises – the backbone of the euro area economy – overcome their financing challenges. They are also a critical source of risk capital for innovative and high-growth companies, particularly in sectors such as technology, biotech and renewable energy.

Facilitating cross-border banking and removing barriers to cross-border crisis management

Cross-border lending can generate important benefits, especially in relation to private sector risk sharing across countries. Banks can reduce the concentration and home bias of their exposures while borrowers can broaden their access to financing and strengthen funding resilience when the domestic market is under stress.

Yet, the European banking sector is still fragmented. Over the past decade, little progress has been made in integrating banking groups across borders. And when consolidation in the banking sector does occur, it is often at the national level.

Despite the existence of a European supervisory and resolution framework, a number of prudential and resolution requirements, such as capital, liquidity and loss-absorbing requirements, are still national in nature. This is a major obstacle to integration.

To foster cross-border banking, we should make it easier for banks to operate as truly integrated groups within the banking union. For this to happen, there needs to be the same possibilities for pooling capital and liquidity across legal entities located in different Member States as there are for banking groups operating within a single Member State. We should also take a more harmonised approach, and a banking union perspective, when setting minimum standards for capital buffers.

In times of crisis, further harmonising bank crisis management across the banking union will enhance the level playing field in Europe. Stakeholders need to be sure that, if a bank fails, there will be a similar outcome regardless of where in Europe the bank is domiciled. The resolution framework is a key part of this effort. And the ongoing reform of the crisis management and deposit insurance framework aims to broaden the application of the harmonised resolution framework beyond significant banks.

Yet many bank failures will still be managed under national insolvency regimes, so further convergence on these is also needed.

When a bank is wound up under a national insolvency framework, the deposit guarantee scheme plays a vital role in safeguarding depositors' access to their accounts. For now, these deposit guarantee schemes are also national, which can lead to the perception that a euro deposited in one Member State is safer than in another.

Finally making progress on introducing a European deposit insurance scheme (EDIS) should be a priority for the next legislative term. The recent progress on this dossier in the European Parliament makes me hopeful we can achieve a breakthrough. EDIS would bring us closer to the vision of a true single market for banking in Europe.

A single market for capital in the EU

For the ECB's Governing Council, a more integrated EU banking market is a key reason to develop a capital markets union (CMU) and establish a single market for capital in the EU.[1]

Previous editions of the reports presented today have illustrated the need to further integrate financial markets to enhance the euro area economy's resilience through private risk sharing and to strengthen the international role of our common currency.

It has become increasingly clear that European capital markets are instrumental in the pursuit, and financing, of the EU's strategic goals. We need massive investment to drive the green and digital transitions and we must boost the EU's productivity and competitiveness.

A starting point for this discussion is often the relative success of US capital markets, which can be attributed to several factors. A significant one is the global role of the dollar in international finance. A common set of laws and regulations on trading financial assets ensures the coherence of US capital markets. This is supported by the market for US treasuries, the largest and most liquid asset in the world. And a consolidated trading and post-trading landscape also encourages investor participation in the market. These elements contribute to the pivotal role that US capital markets play in financing innovative firms domestically and internationally.

Drawing on this, initiatives to promote pan-EU capital markets should first focus on enhancing both the supply of and demand for capital market funding. I see several concrete action points.

The first is to channel Europe's savings towards EU equity and bond markets by developing EU-wide savings products subject to a common framework and harmonised tax incentives.

Second, we need to develop equity markets to make them more attractive for issuers and investors. Risk capital markets are particularly important for fostering the innovation necessary for the green and digital transition.

Third, we must mobilise securitisation markets for CMU. Comparing EU and US markets highlights the role that US government-sponsored enterprises play in fostering standardisation and market depth in the US. Pan-EU issuance – possibly enhanced by a public guarantee – could broaden the investor base and support segments such as green securitisation.

We must remember that simply increasing finance is not enough to achieve economic growth. Funding needs to be used in the most effective way possible. This is why we also need policies that support economic restructuring and projects that provide opportunities for more productive funding.

Finally, the push for CMU – or a savings and investment union – should go hand in hand with renewed efforts to remove barriers within the Single Market. Further harmonisation of corporate insolvency rules, accounting frameworks and securities law is needed to establish a single capital market with scale and depth.

Conclusion

Let me conclude.

Financial integration has supported the euro area's resilience in the face of significant geopolitical risks, economic shocks and unprecedented high levels of inflation. This is reassuring. However, the decline in certain measures and the sluggish progress towards greater integration is disappointing. Urgent action is therefore needed to increase investment in the EU and establish clear priorities to address the challenges ahead.

Advancing CMU should be a critical political project for the new European Commission. It should go hand in hand with strengthening the resilience of the non-bank financial sector as it consolidates its importance in financing the EU's real economy.

At the same time, Europe remains primarily bank-based. And completing the banking union remains a priority. A single capital market needs to come in addition to, and not instead of, a complete banking union. Setting up EDIS should be high on the agenda in the next EU legislative term. It is essential for depositor confidence and for ensuring a level playing field for banks.

Both the capital markets union and the banking union should be viewed within the broader context of the European project. Enrico Letta's recent report[2] rightly considers the Single Market as central to financing strategic goals, competitiveness and the future of the EU. Removing existing barriers within the market for goods and services and advancing in the three strategic sectors that were previously excluded from the Single Market – namely financial services, energy, and telecommunications – will allow us to benefit from the full scale of the market. The single market for goods and services is essential to attract investment, make our Economic and Monetary Union more resilient and support the EU's role as global player on the international stage. At the same time, State aid procedures must guarantee a level playing field and be compatible with the single market.

Lastly, a permanent EU central fiscal capacity remains essential to the European project. It would enable us to tackle geopolitical and economic challenges more effectively. And by supporting investment in strategically important areas, generating economies of scale and raising productivity across the bloc, it would help to improve the welfare of European citizens while further enhancing financial integration in the EU.

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[1] ECB (2024), Statement by the ECB Governing Council on advancing the Capital Markets Union, 7 March.

[2] Letta, E. (2024), "Much More Than a Market: Speed, Security, Solidarity – Empowering the Single Market to deliver a sustainable future and prosperity for all EU Citizens", Institut Jacques Delors, France, 27 April.