

Presidency issues note for session n°2 of the Informal ECOFIN

A strong financial sector, for a stronger European growth

The European financial sector has proved all its usefulness in the crisis exit strategy

Coming out of the exceptionally severe economic crisis we have just been through, one conclusion stands: our financial sector has been a strong asset for the real economy. We have not had to face series of bankruptcies, financial indicators have remained solid (for example, non-performing loan rates and solvency ratios are well oriented). Markets absorbed a significant part of the financing needs, far from what the 2008 experience. This success is, first of all, due to the quality of our public response, which was strong and coordinated. It is also thanks to the strength and resilience of the European financial sector, which, bolstered by the progress made in regulatory matters over the last 10 years in the construction of a Union of financing, has been a major asset in providing financial support to businesses and households.

Massive and renewed needs

The green and digital transitions create massive financing and investment needs. The financial sector must be in a position to contribute fully to this twin transition by having the capacity to invest over a longer time horizon and by rethinking its approach to risk to better support innovation. However, European markets and investors do not always have sufficient depth or strength to meet the financing needs of companies involved in innovation and in the green transition. The number of large investment funds (above €1 billion) in the EU is much lower than in Asia or the United States. The objective of strategic autonomy in an open economy requires deeper European financial markets, the improvement of their capacity to meet complex and new needs, and the strengthening of European financial institutions.

Which evolutions should we promote?

There is a very significant growth potential for our European capital markets, since the European Union is one of the world's largest savings pools. In order to align the capacities of the financial sector with the needs of the European economy and thus

strengthen its economic and financial stability, the development of more attractive and competitive European capital markets seems necessary.

Several areas of progress could be considered, among which:

- Foster **increased direct or indirect participation of households/savers in the financial markets**. Such participation remains low, for example for psychological reasons (risk aversion, limited knowledge in investment vehicles) or institutional reasons (limited share of long-term savings);
- Set up rules that promote financing instruments for the **green transition**, *i.e.* (i) favourable to long-term investment and (ii) which fully integrate extra-financial data, in order to foster a European ecosystem in this area;
- Ensure that we promote (i) high and balanced regulatory standards at the multilateral level and (ii) within this framework, ensure the **competitiveness of European companies and activities in all segments and businesses of the financial services sector**, which implies guaranteeing a regulatory level playing field with non-European companies and financial centres, taking into account European specificities, and maximising investment capacity;
- Ensure that a stronger European financial sector enables the **financing of disruptive technologies** (data economy, artificial intelligence, *blockchain*, synthetic biology, quantum computing, etc.);
- Secure access to **finance for growing companies**, by supporting initiatives already underway (e.g. initiatives in favour of *scale-up* companies)...

Based on an assessment of the strengths and weaknesses of the European financial sector, this session will discuss how to strengthen the European financial sector so that it fully finances the twin transition and economic growth. It will also discuss how to set up a political follow-up of this issue.

Questions for discussion for Ministers and Governors:

- Do you share the assessment that it is essential to strengthen European capital markets to meet the challenges of climate and digital transitions? How can this be achieved?
- Do you support the idea of putting this topic regularly on the agenda of our meetings, in order to keep track of it at the political level, and thus to ensure that private funding is available?