

Towards a Savings and Investments Union - remarks by Pierre Gramegna

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Speeches

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Opening remarks to panel discussion

"Towards a Savings and Investments Union"

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Ladies and gentlemen,

Good morning from Luxembourg, I truly wish I could be with you in Paris today. Unfortunately, prior commitments prevented me from joining you in person. Yet, I am glad to be able to contribute to this important conference.

Next year marks the 10th anniversary of the launch of the Capital Markets Union. Its necessity was recognized a long ago, but progress has been incremental. We are still a long way from achieving the ultimate goal: a fully integrated capital market. I am hopeful that the political capital invested by Paschal Donohoe in this project, and the Eurogroup statement that came with last March, will help generate the necessary momentum to make significant headway. Time is of the essence.

With Europe facing slow economic growth, the need to advance the Capital Markets Union - or the Savings and Investments Union, as it is now often being referred to - has become more critical than ever. Over the past years, growth in the EU has

remained under the 1% mark. While it is expected to increase in the short-term, it remains shallow. Against the backdrop of current geopolitical fragmentation, geopolitical tensions, and a potential introduction of tariffs by the incoming US administration, Europe is particularly vulnerable. For the EU, total trade represents about 60 percent of GDP. For the US, this number is about 25 percent. For China, about 35 percent. Europe has a lot to lose over trade wars.

I am deeply convinced that Europe needs to continue promoting multilateralism. But Enrico Letta's report also highlighted that Europe should leverage on what it can control: its Single Market. Although it is part of the great European successes, alongside the introduction of the euro and the Schengen area, it remains fragmented. It needs to be deepened and updated. It would help boost European productivity, which is at the core of Europe growth problem.

A recent IMF analysis suggests that completing the Single Market could substantially boost the EU's economic performance. Reducing remaining barriers for goods and services by 10 percent could increase output by up to 7 percentage points over the long term. As indicated by Enrico Letta, part of the solution is to boost innovation. Compared to the US, innovation has been lagging in Europe. The innovation gap has been driving the productivity gap. Over the past decade, European companies have invested way less in Research and Development than US firms. This shortfall limits Europe's capacity to innovate and use new technologies. An integrated market for capital across the EU is indispensable to generate the necessary resources and provide sufficient access for companies to funding through venture capital, equity, and bond markets. This is particularly key for startups and high-growth firms that rely on risk capital to develop innovative technologies. It would also allow for a better allocation of capital across the EU. As noted by Enrico Letta, massive household savings are available. They only need to be channelled to the right opportunities without facing multiple internal barriers.

An integrated capital market would also attract new investors. During some of our roadshows, we have heard from investors that investing in the EU can be cumbersome and costly. In the US, they invest in one market, in one risk. They do not need 27 legal experts to analyse 27 different markets. There is a clear need to harmonise regulation across Member States.

Looking at the broader picture, private sector financing will play an essential role in financing Europe's ambitions like the green and digital transitions, and security

needs. According to Mario Draghi's report, an additional €750-800 billion per year will be needed over the coming years. The lion's share is expected to come from the private sector. And the Savings and Investment Union will be necessary to mobilize this money.

The remaining amount will need to come from public resources. Some of these resources will need to stem from domestic purses. This might be challenging, as the pandemic crisis has led to a sharp increase in public debt. Many countries will have to consolidate their public finances under the new fiscal framework. Consequently, there have been calls to use more public money at the European level. The European Commission, the European Investment Bank, and the European Stability Mechanism issue safe assets. In March this year, the total amount of safe assets issued by these institutions reached the 1 trillion-euro mark.

The ESM's maximum lending capacity is €500 billion. Its current lending capacity is €422 billion. In his report, Enrico Letta suggests that the ESM provide a precautionary credit line to its members - the 20 countries of the euro area - to help them finance their defence and security expenditures. With a war at our doorstep and the US's potential disengagement from NATO, ramping up such expenditures becomes ever more important. The ESM is ready to work on this with its members.

Ladies and gentlemen, Heraclitus said that big results require big ambitions. The ambitions have been laid out. They are necessary for Europe to thrive. But to achieve them, we need the necessary means. The Savings and Investments Union will be central in this endeavour if we want to be successful. Public institutions like the ESM also play an important role. Ultimately, it is political will and political alignment that can make it happen. I can assure you that I do not miss any opportunity while in the Eurogroup to push for more European integration. Because what we need in these times, is more Europe, not less.

Thank you.

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