European Economic and Social Committee
Employers' Group

Banking Union and Capital Markets Union:

full implementation remains a priority

- The plans for a fully-fledged banking union and a capital markets union were the right response to make the financial institutions and markets more stable, competitive, safe and resilient.
- Both Banking Union and Capital Markets Union are vital for the further deepening and completion of the EMU and their implementation is indispensable.
- Addressing major challenges we are facing, such as climate change, the transition to more sustainable economies, technological progress, digitalisation and changing society, will require deployment of huge resources. Both unions have a role to play here, by creating environment allowing for major mobilisation of capital in Europe.
- More competition between financial players should give businesses the opportunity to find the best finance at the lowest price. Investors and savers should also be able to take advantage of this new environment, inter alia through more choice and better protection.
- After substantial progress in implementation of the first and the second pillar of Banking Union (supervision and resolution of banks) it is time for the third pillar – introduction of a common deposit-protection scheme that secures rights of the depositors and by doing so reinforces the banking sector. More should be done to be successful in this field.
- It should be noted that the current monetary policy of the ECB and the low interest rates have considerable implications for the profitability of banks.
- The success of the capital markets union depends on combining the best of the current situation with as many new opportunities as possible. Easy, appropriate and diversified access to funding, a more balanced allocation of capital and lower capital costs are priorities.
- Particular attention should also be paid to the financing of SMEs, which are the backbone of the European economy.
- Trust and confidence between Members States are vital for successful implementation of both unions. The policy makers should focus more on objectives and adjust means.

Capital markets union and banking union – much needed response to post-crisis reality

After the financial crisis, it became clear that the fragmented environment in the EU made it difficult to deal decisively and effectively with problems, particularly in the financial system. A common and cross-border approach became essential/were needed.

The challenge was to make the financial institutions and markets more stable, competitive, safe and resilient. From that perspective, the plans for a fully-fledged banking union and a capital markets union were the right response.

This further financial and economic integration within the EU continues to be crucial, especially as a number of global power shifts are under way. Both unions are also vital for the further deepening and completion of the EMU.

The cross-border integration of credit and capital markets is equally very important for the monetary policy, as it would facilitate a smooth transmission of the single monetary policy across the union.

The further financial and economic integration within the EU applies also to the single market. Even though the single market is one of the EU's most important achievements, the financial sector is still too fragmented and should urgently be integrated to create a single and strong financial sector.

Europe and the world are also currently facing a number of major challenges such as climate change and the environment, the transition to more sustainable economies, technological progress, digitalisation, changing demographics and a changing society, to name but a few. These will require major efforts and huge resources to be deployed.

It is therefore also important to create an environment in which these resources can be harnessed through a major mobilisation of capital in Europe. A fully-fledged banking union and capital markets union can and should contribute to this, each in its own way. It is now time for these to be implemented without delay! The consequent broadening and diversifying of funding sources should make the economy more dynamic, robust and competitive. More competition between financial players should give businesses the opportunity to find the best finance at the lowest price.

State of play and the way forward

Since the initial plans in 2012 to establish the banking union, substantial progress has already been made with the implementation of its first and second pillars. It is now time to create the right conditions to implement the third pillar. This third pillar, i.e. the introduction of a common deposit-protection scheme, should help further restore confidence in the banking system and promote the appropriate allocation of resources. Since the launching of the original proposals, great deal of work has been carried out, but unfortunately, negotiations were unsuccessful until now. More efforts are needed here!

When it comes to Europe's capital markets, they expanded substantially from 1992 to more than twice the size of the EU economy in 2015. However, fragmentation remained considerable. That is why the Commission launched its flagship initiative in 2015 on establishing a capital markets union. Its aim is to mobilise capital in Europe and channel it to all companies, infrastructure and sustainable, long-term projects, with positive effects, inter alia, on employment.

In contrast to the Banking Union, this initiative can do no more than supply the building blocks for the creation of a truly integrated internal market for capital. The ultimate success of the CMU will depend on the extent to which the suggested building blocks are transformed into an effective reality in the Member States and the single market actually comes into being and is used effectively by all relevant stakeholders, first and foremost by financial service providers, businesses, investors and savers.

A mid-term review of this initiative was carried out in 2017, and since then a number of measures have been put in place, particularly for the benefit of SMEs. However, the challenges remain considerable and may require a number of additional or new insights to be developed to achieve real success in this area.

For entrepreneurs, the success of the capital markets union will hinge on combining the best of the current situation with as many new opportunities as possible. Easy, appropriate and diversified access to funding, a more balanced allocation of capital and lower capital costs should be priorities here.

Safeguards as regards international competitiveness and attractiveness are needed. At the same time, particular attention should also be paid to the financing of SMEs, which are the backbone of the European economy.

Trust and confidence between Members States are vital for successful implementation of both unions. The policy makers should focus more on objectives and adjust means. The measures should be put in package to avoid having too many parallel legislative proposals at the same time.

Finally, while the capital markets union projects concerns all Member States, banking union is currently a matter of the 19 Eurozone countries. Now Brexit is a reality, the remaining Members States should be encouraged to join as soon as possible, to unleash the full potential of both unions and of monetary integration.

TO BE AVOIDED:

- While implementing Banking Union and Capital Markets Union, Member States should avoid gold plating at any cost.
- Fragmentation as well as the absence of a real level playing field between all financial actors, both traditional and new players, are to be avoided at any price as they will seriously hamper success of banking union and capital markets union.

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