The strategic importance of the EU financial sector

Inertia will not bring growth. And even less if the inertia seen in Europe is moving very slowly. Some sectors, such as industry, finance and telecommunications, have lost competitiveness at global level. Major structural changes should be considered to place Europe at the front of global competitiveness and to enhance its strategic autonomy.

European institutions and key European actors have finally acknowledged the problem and are ready to take action. In recent months, we have heard promises regarding de-regulation, reducing reporting obligations and speeding up industrial permitting process, among others.

In this process, we must remember the link between the banking sector and the real economy as a result of the essential functions provided by banks to companies and households. It is unrealistic to consider European strategic autonomy without a solvent, profitable and resilient banking sector that guarantees credit to the economy in a cycle where significant financial resources are required to facilitate the digital transformation and the green transition.

Banks are the drivers of growth in developed economies. They help people and business prosper.

Since the global financial crisis of 2008, European banks have been lagging behind US banks. The market value of the top 20 banks in Europe at the end of 2007 was 57% greater than the top 20 U.S. players and it is now 43% lower. The market value of JP Morgan is equivalent to the market value of the top 10 European banks, while before the crisis its market value was similar to Banco Santander's. Today, 60% of the investment banking market in Europe is in the hands of four American institutions, while they held no more that 40% 15 years ago.

European banks are suffering low valuations due to, among others, two factors:

a) Market fragmentation. The reasons behind this can be summed up in the absence of a fully-fledged EDIS and the non-completion of the banking union, regulatory barriers preventing cross border consolidation and national discretions among directives that have to be transposed. Better integration would increase financing through securitisation, allowing banks to transfer risk to non-bank players, including insurers, and to generate new lending. Integration would also leverage capital pools outside the banking sector, to help finance the real economy. This integration will be necessary to meet the significant future investment needed to transform European economies.

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b) Regulatory instability. We see national governments imposing taxes on "windfall" profits, limiting the ability of banks to build reserves and supervisors limiting dividend distributions. Stability and legal certainty are basic and key to retaining an attractive proposition to investors and to attracting capital from abroad. This is not happening today.

The upcoming Own Initiation Opinion ECO615 to be discussed at the EESC's December Plenary and of which I am the rapporteur, discusses the strategic importance of the EU financial sector.

We as the EESC Employers' Group have been successfully advocating for a competitiveness check, which should also be applied on existing regulation to assess the impact on the performance of the sector as well as the impact on the rest of the economic sectors of the European economy. Considering the high level of interdependence, the way in which the sector supports growth should be one of the pillars of any impact assessment applied to banking regulation. The Capital Markets Union and the Banking Union have to be fully implemented, since they strengthen the EU's financial stability and integration as well as the extended supervision by the ECB of the systemic entities within the European financial system, particularly those institutions that are currently outside its remit and that represent systemic risks given the nature of their interconnectedness and the high volume of their assets, as it is the case of the German Sparkassen.

In the Euro area, they safeguard deposits worth €23 trillion and provide the same amount in loans, including €7.2 trillion to households, and processed 114 billion non-cash payments in 2021, valued at €197 trillion. Their role is particularly relevant in Europe, where households and businesses are dependent on bank financing for 70% of their financing needs, as opposed to the US where around 80% of corporate external finance is provided through capital markets. Additionally, the banking sector itself is a relevant part of the European economy, employing more than 2.2 million people.

Improving the competitiveness of the European financial sector is essential to strengthen Europe's position and its strategic autonomy. Banks are enablers of growth, processing payments, providing access to financing and facilitating saving. In the Euro area, they safeguard deposits worth €23 trillion and provide the same amount in loans, including €7.2 trillion to households, and processed 114 billion non-cash payments in 2021, valued at €197 trillion. Their role is particularly relevant in Europe, where households and businesses are dependent on bank financing for 70% of their financing needs, as opposed to the US where around 80% of corporate external finance is provided through capital markets. Additionally, the banking sector itself is a relevant part of the European economy, employing more than 2.2 million people.

I will conclude by emphasising the importance of a profitable banking sector that is sustainable in the long term. Profits are key to generating capital reserves in an environment where banks are failing to generate a return above their cost of capital and might struggle to tap the markets when in need of capital. This is especially relevant at a time where a significant amount of financing is needed.

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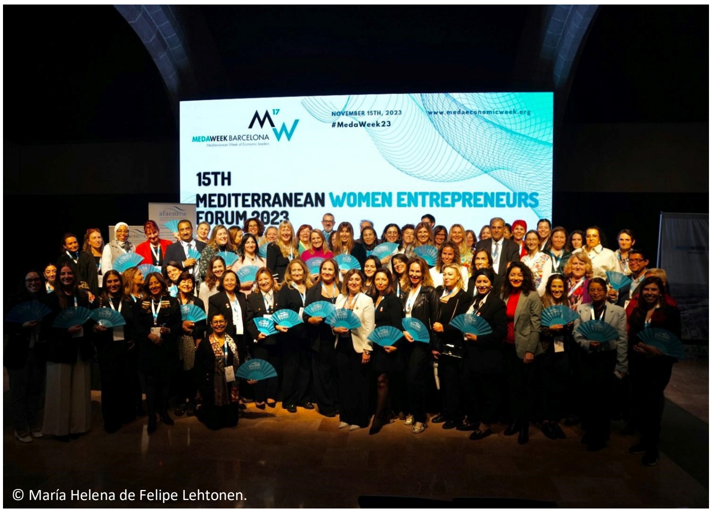
"Inspiring positive change"
MEDA WOMEN ENTREPRENEURS FORUM 2023

The XVth Edition of the "Meda Women Entrepreneurs Forum" was held on 15th November 2023, in Barcelona, led by AFAEMME under the umbrella of the ASCAME Mediterranean Economic Leaders Week. Outstanding business women and high-level female leaders from the public sector came together to discuss how women can finally be fully integrated in the economy.



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According to Eurostat, the latest statistics from Q2 2023 show that in the EU 16.2% of men are self-employed, while only 9.5% of women are self-employed. This gap costs the EU ideas, innovation, jobs – and lastly hampers the EU's competitiveness.

The forum analysed the roots of this problem in the Mediterranean region, ranging from cultural factors to insufficient support for women-led businesses, the lack of policy frameworks to address the gender gap and the challenge of promote work-family conciliation, among others.

Another central issue is the difficult access to finance for women entrepreneurs, to ensure business creation and growth. Improving the quality of accompanying non-financial services is needed. This also includes the potential of fintech to improve access to debt and equity financing and the need to scale up measures to support growth-oriented women.

Gender policies should focus on promoting the right mindset to advance gender equality. A mainstreamed approach to gender equality is the way forward to contribute to sustainable progress, across a whole variety of socio-economic, geographic, institutional, policy and sectoral factors and stakeholders. For this to be achieved, countries should work towards ensuring a better representation of women in policy making across all policy areas and sectors, the collection of gender-disaggregated data, the systematic use of relevant governance tools and the necessary administrative capacities.

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