



FUTURE EUROPE | PANEL 1

“ FINANCING THE EUROPEAN UNION ECONOMY ”

Background

In addition to operational and legal issues, Brexit will trigger a major reshaping of the financing of the EU27 economy. This is particularly important in the light of EU policymakers' goal to reduce the reliance of the European economy on the bank channel (currently 75%) and to increase the availability of capital markets financing (currently 25%), thus diversifying financing and reducing the impact of problems in the banking sector and the importance of the 'too-big-to-fail' issue. As such, the UK's departure from the EU, together with London as Europe's major financial center, reinforces the need for:

- ✓ **A more robust EU Capital Markets Union (CMU)**, not only as a complement to the traditional banking channel but also as a key path towards ensuring more harmonized EU markets. Since September 2015, positive steps have been taken to modernize EU capital. However, much remains to be done on several fronts. Now is the time to make big strides to address both pan-European and local dimensions of the CMU. Digital and sustainable finance should be at the heart of this discussion.
- ✓ **A fully-fledged Banking Union**, to allow banks to offer their services across borders within the Monetary Union with as few unnecessary impediments as possible. The current framework was established in a remarkably short period of time and effectively contributed to reducing fragmentation in Eurozone banking markets. But fragmentation continues to be greater than desired. There are several possible pathways towards addressing the existing barriers faced by banks operating within the Banking Union. A high priority is establishing the Banking Union as a single jurisdiction when applying certain prudential requirements. The path forward is politically challenging but economically worthwhile: a banking system that is self-insured, does not rely on sovereign implied guarantees and does not fall back on taxpayers.

Undoubtedly, the degree to which (wealthier) EU members are willing to give away more sovereignty and share multiple financial risks together will determine how much progress can be made towards a more robust EU Capital Market Union and a fully-fledged Banking Union.

While we are confident that the EU27's leading financial services providers will be able to ensure the continued availability of financial services to EU customers after Brexit, the objective here is to reflect on which pathways the EU27 should prioritize to become an independent financial center with a strongly enhanced attractiveness. The EU27's choices in this regard will have a decisive impact on the future development of the EU's position and influence as a global financial center.



FUTURE EUROPE | PANEL 2

“ STRENGTHENING THE EURO ZONE ”

Background

The current missing pieces of the euro area architecture are clear to see but complex to address. There is however a small but crucially important window of opportunity to conduct further economic and political structural reforms. Important steps towards completing the Banking Union and Capital Markets Union have already been taken, but they have to be completed by a higher degree of economic convergence through a strengthened Economic and Monetary Union. This is especially important when considering that QE will soon reach its end: the ECB President Mario Draghi has rightly warned for years that the ECB cannot remain “the only game in town”.

The newly released European Commission multi-annual framework 2021-2027 budget represents about 1% of the EU's GDP, far too small to have influence on convergence and resilience in the long run. While adjusting to the Brexit related budgetary challenges, a consistent EU budget should mostly be one that strikes the right balance between the funding of its traditional policies and the emerging priorities such as those relating to defense, migration, digital and green finances issues.

Most importantly, the call for unity, efficiency and democratic accountability made in the State of the Union address is still particularly relevant as a guideline for the completion of the Economic and Monetary Union:

- ✓ The **EU's political and economic integration** means that the futures of both euro and non-euro Member States are already intertwined, and that a strong and stable eurozone is key to its members as well as to the EU as a whole.
- ✓ A stronger Economic and Monetary Union also requires **stronger governance and a more efficient use of available resources**: the current system still reflects a patchwork of decisions taken to face an unprecedented crisis.
- ✓ Completing the Economic and Monetary Union also means **greater political responsibility and transparency** about who decides what at the different levels.

For some time now, growing concerns have been expressed about the credibility of the Stability and Growth Pact rules. But calling them into question would attribute the Eurozone budgetary discipline to the financial markets. Such evolution would be profoundly detrimental to the EU principle of democratic accountability. What we call for instead is to reinforce Member States' commitments to pursue converging economic policies while reforming the Euro area institutional framework to make it more resilient.



FUTURE EUROPE | PANEL 3

“ RESHAPING EUROPE’S FUTURE ”

Background

Recent geopolitical events are a reminder that the world, and Europe's place in it, is in constant flux. As it considers its future, Europe faces a challenging environment. The US is pursuing increasingly protectionist policies at the same time that China is opening up to the world and liberalising. With Brexit looming, with Eastern European countries increasing susceptible to populism and far-right policies, and with the current Italian political gridlock, the European project no longer appears to be the guarantor of stability that it once was.

Europe's institutions are failing to provide sufficient opportunities for the mass of its citizens to benefit from globalization. There is widespread skepticism and a growing divide between those who benefit from globalization and those who are being left behind. Additional challenges in areas such as defense, security, migration, climate change and the digital revolution also make it clear that European countries need to reassess the policy and institutional frameworks that until now have formed the basis of their cooperation. And at the same time consider a way forward that will strengthen European sovereignty and unity and enhance democracy on all levels.

The current functioning of European political institutions is causing frustration on two fronts: citizens' direct influence is mainly confined to the national level, where means for action are increasingly limited, while they have little influence on the European stage where power is increasingly concentrated. The result is a widening gap between our institutions and the concerns of European citizens.

Europe is now at a crossroads and faces decisive choices on how to improve its economic performance and political functioning, as well as its global competitiveness. While quickly achieving consensus on the reform agenda can be challenging, there is now an urgent need for the EU to reinvent itself to counter the rise of far-right nationalism and to create a Europe that is accountable to its citizens and provides for their needs.