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“Making EU Economy in a Shifting Economic Landscape - the Role of Capital Markets”

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This edition of the *Attractiveness Survey* comes at a time when the economic landscape, including many factors behind investment decisions, has been shifting for a while. Decisions have been made at central banks level as well as at national public authorities and European institutions levels. Regulatory and supervisory authorities have been giving a hard look to different areas under their responsibilities.

Post pandemic recovery efforts have been strong and long term oriented. We continue facing dependencies revealed by pandemics, strongly exacerbated by war and sanctions, supply chains bottlenecks, moving attitudes to re-shoring, near shoring and recently friend shoring, challenges of investment localization corporate strategies. The war and sanctions have become a challenge in themselves with consequences and deep uncertainty about the future. Definitely, the risks for growth and financial stability have increased, and a variety of ideas about the future of globalization is on the table.

The world is divided consolidating like-minded group of democracies against the autocratic regimes. Global political environment will not be conducive to what the global world needs which is cooperation.

International standardization might become a fundamentally important area, more than ever sensitive to ideological divisions in the global world. Risks to multilateralism seemed unbeatable before the recent WTO Ministerial Conference. Yet, the MC12 was successful. Member states found sufficient amount of common interest to prevent WTO from collapsing. We saw constructive role of the membership and we can only hope that commitments will be respected.

Turbulent international environment and overwhelming uncertainty makes me feel tempted to see as the important risk to investment in the coming future the choice between efficiency and certainty in making investment decisions. The scope and scale of the above challenges require policy mechanisms mobilizing private investors. The needs are skyrocketing and it is clear that public investment will not cope on its own with climate transformation, digital transition, reduction of dependencies, new technologies, semiconductors, rebuilding Ukraine where security guarantees for private investment will be needed. We must avoid managed approach to challenges, race to the bottom on public subsidies, we need strong policy actions reducing barriers to private investment and providing incentives.

Limited global role of currencies like ruble or renminbi should keep the risk for international monetary system low. However, inflation will stay for a while as a major growth stumbling block, requiring wise monetary policy, reaching to new tools and better international coordination. We still hear from responsible institutions and authorities that nobody plans recession but it becomes more likely than a couple of weeks ago. The good news is that in the European Union we see serious efforts to ensure that regulatory frameworks under amendments will be fit for next decades.

A lot of legislative adjustment is needed. For the investors growing and consolidated capital markets seem crucial. In the history of European integration, there are examples of policy projects, which reach the status of the so-called unfinished business. The Capital Market Union is one of them. Many of us here probably share this feeling of collective frustration with the unfinished construction of the CMU. The EU, indeed, continues to depend heavily on bank based financing, limited role of equity, limited retail participation in the capital market. Relatively small size of the capital markets in the EU becomes more obvious when we look at data for the US. In 2020, US domestic equity market amounted to 175% of the US GDP, in case of Europe it amounted to 60% of the EU GDP. Clearly, the size of European capital markets does not reflect the EU economic potential and the openness of the European economy.

In addition to its insufficient size, this market is also too fragmented. Not only along national lines. We have to give a hard look to how trading, clearing and settlement work together. Today we have around 500 different trading venues for all financial instruments. We need 27 member states to agree on a common vision of the Capital Market Union, and we are working on it. This year, the European Commission has already proposed a number of legislative acts, and more will come. We have to make sure that we will create an efficient, transparent, based on level playing field and globally competitive capital market. We need a CMU where all market players are able to contribute to making the pie grow and benefit from it.

For me competitiveness of capital market means efficient raising of capital, transparency, investing in competitive, and innovation based sustainable economy. Competitiveness depends also on solvency framework, largely national, taxation, a single IPO document, adequate financial education among citizens; but it also means high standards for market participants, building trust, excellent supervision and streamlined user-friendly system.

When it comes to the CMU, the European Union is, with few exceptions, a non-unified jurisdiction, compared to the UK or US. That increases the fundamental role of regulatory framework. Each time we legislate, choosing the right balance between European framework and national solutions, history and politics make it challenging. In the CMU case finding good solutions to politically sensitive issues not only delays the legislative process but also leads to compromises, which are not always best.

The regulatory framework must be based on a good understanding of negative consequences of a highly complex system with many national options and discretions and cross border barriers. Moving from capital markets to a single capital market is both technically, and politically difficult; but the EU has a good tradition of better law making. It is based on thorough consultations, impact assessment, review clauses, efforts to limit the prescriptive nature to the necessary minimum, while ensuring needed flexibilities. I trust that moving forward on CMU, we will aim at getting a streamlined, simple system with low administrative burden, based on quick procedures, focused on competitiveness and not undermining it, aligned with global standards.

The EU does not need to be a rule taker to be competitive compared with other meaningful jurisdictions. We must also invest in trust based, efficient and effective supervision, whose fragmentation would always have hidden costs and lead to regulatory race to the bottom, reduction of investors protection and increases in the cost of capital. Looking at other jurisdiction in this context might be useful, especially understanding the empowerment of FCA and SEC where the regimes are more agile.