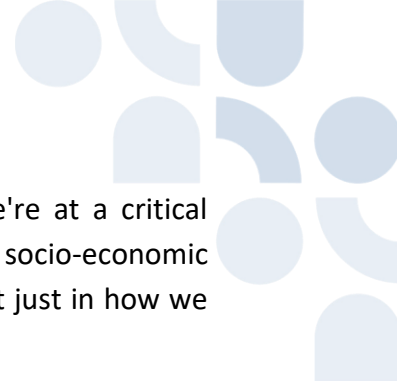


Issues note of the informal Ecofin on EU competitiveness

Meeting of EU Finance Ministers and Central Bank Governors,
23rd and 24th February 2024, KAA Gent Arena





As Belgium takes on its thirteenth Presidency of the European Union, we're at a critical juncture. Challenges, both immediate and long-term, are impacting our socio-economic future. The EU is dealing with a considerable competitiveness challenge, not just in how we compete globally, but also in strengthening our internal market.

Addressing this competitiveness challenge is a top priority for the Belgian Presidency and will remain a key focus for the upcoming European Commission. As Ministers of Finance and Central Bank Governors, we will be examining how public and private financing in Europe will be organized in the coming years. Because meeting this challenge will require significant investments from both the public and private sectors.

On the public funding front, the new European budgetary rules on which a trilogue agreement was reached on February 10th, aim to balance debt reduction with high-quality investments and reforms. Additionally, the mid-term evaluation of the Recovery Fund, released on February 20th, will likely spark discussions on a potential follow-up instrument.

Considering the substantial amounts involved, a significant part of the financing must equally come from the private sector. The financial sector, including banks and capital markets, plays a crucial role. The European Investment Bank (EIB), being the largest multilateral investment bank globally, can facilitate more risk financing within the EU.

As businesses in the EU still rely heavily on bank financing, enhancing the Banking Union is essential to ensure financial stability and continued financial flows at the EU level. Simultaneously, efforts must be made to strengthen the European capital market, which is currently underdeveloped and too fragmented.

During this informal Ecofin, discussions will cover the future of the EIB and the deepening of the European capital market, focusing on retail investor participation and financial literacy. These discussions emphasize our commitment to dealing with the challenges of European competitiveness through effective and straightforward approaches. Furthermore, we will have the opportunity to feed into the report on the future of European competitiveness which is currently being prepared by Dr. Mario Draghi.

Lunch Session: Ministers of Finance

Future of the European Investment Bank

Guest speaker: EIB President Nadia Calviño

As current Chair of the Board of Governors of the EIB, Minister Van Peteghem will lead a debate on the future of the European Investment Bank Group. The new EIB President Nadia Calviño is invited to present her vision on the future of the EU's public lender and largest multilateral bank.

The subsequent discussion will provide guidance for the Bank regarding the future strategic direction and focusing on opportunities for the EIB to further support EU policy priorities. In this session, we will assess the current practices of the European Investment Bank (EIB), explore potential reforms, and outline what we identify as the main priorities for the Bank.

Building on its strengths, the EIB Group can play a key role in reinforcing Europe's competitiveness, closing the investment gap of the EU for the green and digital transition, and reinforcing strategic autonomy and security, in a particularly complex geopolitical context. This requires a strong focus on policy priorities, a more efficient, flexible and less bureaucratic institution, and reinforced engagement with its shareholders the EU Member States, with the European Commission and the European Parliament, as well as with national and multilateral development banks.

In this respect, the EIB President will outline her vision along nine policy priorities – in full alignment with EU policies: consolidating the position as 'The Climate Bank'; accelerating digital and technological innovation; expanding the European Tech Champions Initiative; stepping up investments in security and defence; developing innovative financing for agriculture and bio-economy; gearing up investment in social infrastructure; pioneering the Capital Markets Union; supporting Ukraine and contributing to a successful EU enlargement and neighbourhood policy; and delivering strategic investments through the Global Gateway initiative.

Questions

Do you think the EIB Group should play a larger role in financing EU policy priorities?

What do you consider to be relevant reform possibilities for the EIB Group?

What should be in your view the main strategic priorities of the EIB Group going forward?

Follow up

As Chair of EIB Board of Governors, Minister Van Peteghem will ensure that the outcome of those discussions will be translated in concrete flows of action within the Bank.

During the EIB annual Board of Governors meeting in June in Luxembourg, we will provide a follow-up on the outcome of our discussion.

Working Session I: Ministers of Finance and Central Bank Governors

Deepening of the EU Capital Markets: retail investor participation in financial markets and financial literacy

Guest speakers

Mairead McGuinness, Commissioner for Financial services, financial stability and Capital Markets Union

Jean-Paul Servais, IOSCO Chair and Chairman of the FSMA (the Belgian Financial Services and Markets Authority)

Maria Demertzis, Senior Fellow at Bruegel

Annamaria Lusardi, Senior Fellow at the Stanford Institute for Economic Policy Research


When it comes to the European Capital Market, the 2020 Capital Markets Union Action Plan is currently being finalized. The Belgian Presidency closed some major files of the ‘capital markets union’ package, such as the Listings Act, which aims to reduce the administrative burden during and after the listing process, especially for SMEs. Moreover, we reached a trilogue agreement on the ESG Ratings, bringing more transparency to the ESG ratings market, and on the review of European market infrastructure rules, bringing more clearing services to Europe and enhance our strategic autonomy.

But we are still far away from a true European Capital Market. Capital markets in the EU remain excessively fragmented and limited in scale, particularly when compared to the United States. Only through the advancement and integration of a true EU capital market can we effectively tap into essential private capital, involving not only institutional investors but also the savings of households.

Whilst EU businesses still rely for a large extent on bank financing, we also note citizens leaving their savings mainly on bank accounts. Against the backdrop of a period characterized by historically low interest rates, citizens witnessed a reduction in deposit interests. Even with the resurgence of interest rates, deposit rates remained persistently at a subdued level. The dependence of European citizens on bank deposits as their primary savings option denies them the potential to capitalize on higher-yielding investment opportunities.

The topic of financial literacy and especially the lack of financial literacy that we see in our households, was also one of the main observations emerging from the issuance of the Belgian State Bond at the end of last year.

In order to put citizen’s savings to work, we should focus on improving retail participation in financial markets. If we wish to mobilise those private savings, financial literacy is crucial.



According to an OECD survey of adult financial literacy from 2020, about half of the EU adult population does not have a good enough understanding of basic financial concepts. This was underlined by a Eurobarometer survey from July 2023 which found that only 18% of EU citizens have a high level of financial literacy. Households without a good financial understanding will not actively engage in financial decision-making.

Increasing financial literacy was also one of the priorities of the 2020 Capital Markets Union Action Plan. Since then, the Commission in conjunction with the OECD/INFE and the Member States has adopted two financial competence frameworks for adults and young people. In addition, in its Retail Investment Strategy, the European Commission aims to further enhance financial literacy.

Improving retail participation and financial literacy of our EU households could be achieved by further enhancing and developing the following three pillars:

1. Better access to correct and understandable information

Individuals should have access to relevant, comparable and easily understandable information when it comes to their personal finances. The same is true for retail investors to empower them to make informed investment choices. Retail investors are also exposed to a growing risk of being influenced by misleading marketing on social media and via new marketing channels.

2. Better tools and instruments to compare different investment products

We should establish a user-friendly investment environment by developing accessible and secure digital tools and instruments to compare different investment products in order to enhance market accessibility. Additionally, we should incentivize citizens to maximize the opportunities offered by capital markets, such as diversified savings income and the potential for higher returns. This should create an investor/shareholder culture amongst EU citizens.

3. Offering attractive EU-wide savings products for retail investors

We encourage the European Commission to assess the potential of establishing a framework for a unified market-based savings products accessible to EU citizens. Those products could potentially enjoy a consistent and harmonized tax treatment across Member States.

Questions

Does your country currently implement a financial literacy strategy? What do you consider necessary to improve financial literacy in your country? Do you have specific measures to address the low levels of financial literacy amongst vulnerable groups?

How could household participation in financial markets be improved? Does this relate to the risk appetite of households, and how could this be increased? Which new cross border savings and investment products could be offered to retail investors?

Do Members see a role for financial literacy measures (e.g. through tailored education initiatives in schools and the community, and by offering calculation and comparison tools to retail investors) in order to ensure everyone is equipped with basic financial skills, and contributing to a good offer for retail investors?

What do you consider important initiatives that the next Commission should take to address the low levels on financial literacy in the EU and increase retail participation in capital markets?

Follow up

This discussion on financial literacy in financial markets should lead to Council conclusions at an ECOFIN in the coming months. Those conclusions will intend to guide the strategic agenda of the next European Commission and Member States' work in the area of financial literacy.

Working Session II: Ministers of Finance

Future of our EU competitiveness

Guest speaker: Dr. Mario Draghi

On Saturday morning we organize one working session dedicated to EU competitiveness, the overarching topic of this informal Ecofin. For this session Minister Van Peteghem invites Dr. Mario Draghi.

At her annual State of the Union on 13 September 2023, Commission President Ursula Von der Leyen tasked Dr. Mario Draghi with the preparation of a report on the future of European competitiveness.

This informal debate will give Dr. Draghi the opportunity to inform Ministers on the preparation of his report but in particular gather input from the EU Ministers of Finance.

Questions

Dr. Draghi will hold an open debate without presenting questions to the Ministers in advance.

Follow up

Dr. Mario Draghi should present his report to the European Commission President by the end of June 2024. This informal debate will allow the Ministers of Finance to give input and their respective stances on different elements of this important debate.