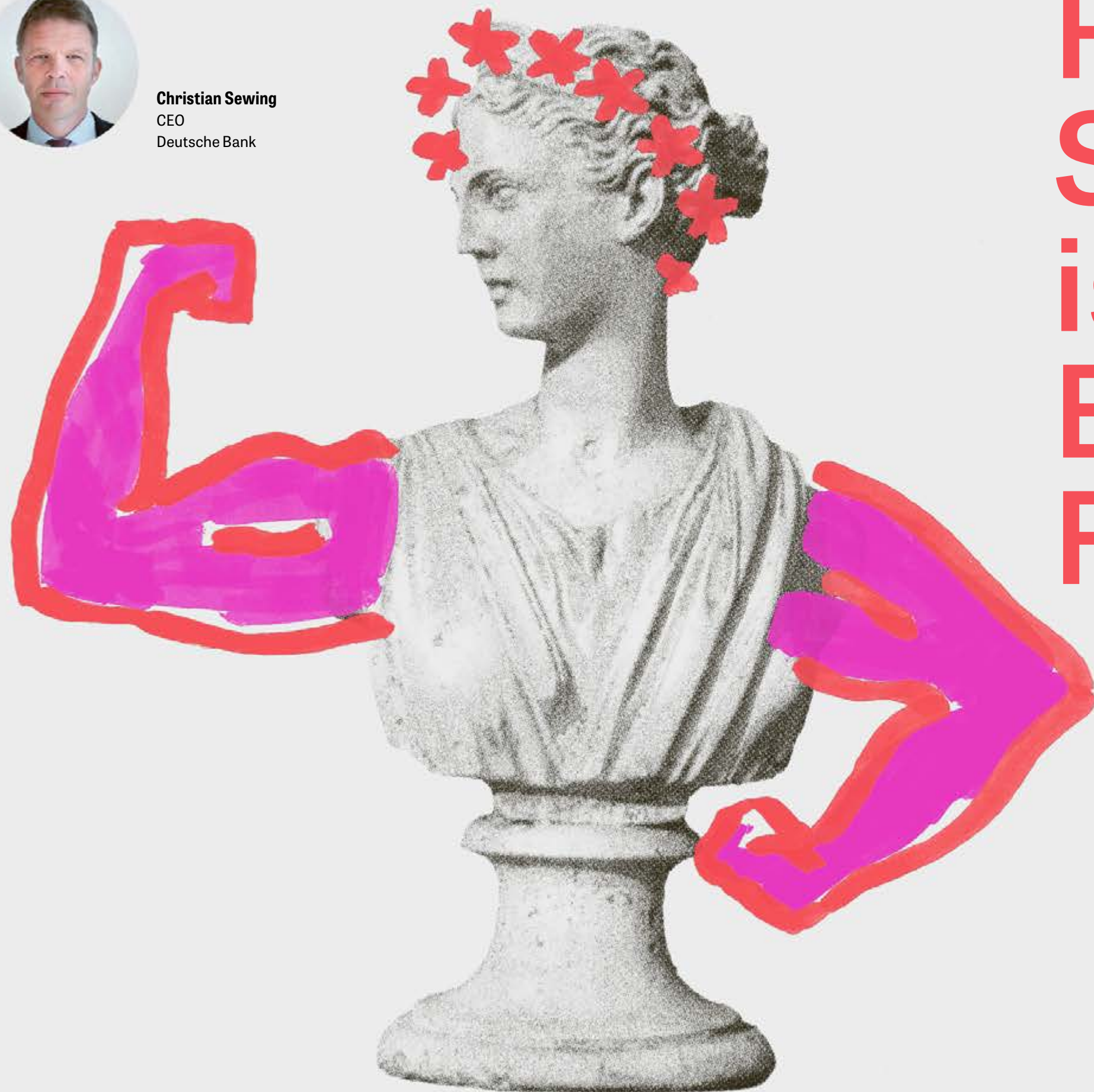




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Financial Sovereignty is Key for Europe's Future

2022 will be remembered as a year marked by risks and challenges to a degree we had not seen in decades. A war in Europe and inflation rates in double digits are things we had hoped to have banished to the history books.



Instead, what had already become increasingly apparent in recent years has been painfully underlined: we are living in times of significant uncertainties and there are several major developments that are beyond our control. And these developments will continue in 2023 and beyond.

It is even more important therefore that we set the right course for those aspects we can influence – and make courageous decisions on those we can control. There is a lot at stake for Europe, nothing less than securing our long-term competitiveness at a time of tectonic shifts in the global economy.

There are reasons to be optimistic: Europe is increasingly in demand as a partner in a time of growing conflict. Our liberal values and stable democracies are respected worldwide. And Europe is a pioneer in the field of sustainability – a topic that will shape the global economy for decades. This gives us a tremendous opportunity to generate growth.

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Reducing dependencies

To do so, we must overcome structural deficits that are holding Europe back. The past few months have shown us abundantly clearly how damaging and dangerous one-sided dependencies on individual counterparts are. We must reduce these dependencies and represent our interests more confidently on the global stage. And this must go along with a serious push for European strategic sovereignty. This issue has been discussed for more than a decade now, but no effective steps have been taken in this direction. Instead, Europe was focused on dealing with one crisis after another. So, if we are to achieve strategic sovereignty, we must rethink Europe.

Now it is time to shift focus from saving to building our continent. We need an Agenda 2030 for Europe, an agenda that paves the way to finally create a genuine common market for 450 million people and consumers that is not split in 27 different jurisdictions. Like the Inflation Reduction Act in the US, this agenda should push innovation and define the fields that are crucial to transform Europe into a continent that not only ensures peace and freedom for its people, but also growth and prosperity.

Strategic sovereignty has several crucial facets: it is about defense, which was center to the early debates in Europe; it is of course about more independence in energy supplies; it is about supply chain adjustments and about securing the supply of essential tech components like semiconductors.

The need for financial sovereignty

But we also need to talk about how we are going to finance the immense investments that are needed if we are to achieve strategic sovereignty while at the same time mastering the non-negotiable green transition. This leads to an area which is far too often overlooked in the debate. And that is financial sovereignty.

Today, Europe lacks the capital and financing structures to raise the huge sums that will have to be spent on the realignment of our energy and raw materials supply, on digitisation and, in particular, on the transformation to a sustainable, low-emission economy.

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This is a highly dangerous situation. At a time when competition between the major economic blocs is becoming increasingly fierce and market positions for the coming decades are being fought over, it would be a serious mistake to become dependent on foreign countries for financing. In fact, losing financial sovereignty for Europe would be just as bad as the energy dependence that is causing us so much pain right now.

To prevent this, the strengthening of the European financial market must be a fundamental chapter of an Agenda 2030 for Europe.



Three fields of action as agenda

For me, three fields of action are central here:

1 **Firstly**, the European Union finally needs an efficient and globally relevant capital market. While a Capital Markets Union has been discussed for years, there has been no serious push towards a common market to date. This leaves the EU with its patchwork of national markets with differing jurisdictions and low liquidity which eventually makes it uninvestable for large international capital pools. This must change urgently, because without attracting private capital at scale, Europe will not be able to compete in the long term. The EU's Green Deal, which is supposed to lay the foundation for a successful economy in the net-zero age, cannot be financed through bank capital alone. It will not happen without the Capital Markets Union.

2 **Secondly**, we need European politics to recognise the important role of banks and create a level playing field with global peers. Since the financial crisis, the European banking sector has become considerably less relevant on a global stage. This has a lot to do with our own mistakes, but also with the fact that banks and banking are still being treated primarily as a risk factor, despite the progress we have made since 2008. Consequently, banking services that are essential for clients, such as securitisations or leveraged finance, are hampered. This not only hurts banks but the entire economy, especially as European corporates, in the absence of highly developed financial markets, are much more dependent on bank financing compared to other regions, in particular the US.

3 **Thirdly**, and closely related, we should ensure that we do not constrain banks' lending facilities further and further at a time when the economy is in desperate need of funds. But this is what is happening, with ever new capital buffers being introduced and bank levies rising continuously. These have significant consequences because they weaken an important pillar of the economy. Regulation has done a lot of positive things in recent years to make the banking sector more robust and secure. But now the pendulum is threatening to swing too far, which threatens to further reduce the pull of European banks.

European banks as confidence-builders

Today, there are already not even a handful of banks in the EU that can operate on a par with the global industry leaders. But European strategic sovereignty is impossible without strong banks that can support its economy at full strength in all situations. In times of crisis and growing geopolitical tensions, it would be a strategic mistake to solely rely on non-EU banks. We need domestic banks that are deeply rooted in our economies and our societies and have proven to be trustworthy partners not only to their clients but also to governments who can rely on their strategic advice.

Strengthening Europe's financial sector is crucial for the medium- and long-term success of our economies. Banks can and want to be part of the solution to the challenges that lie ahead. But we can only do this in close cooperation with businesses, policymakers and regulators. We need to work together at all levels to move Europe forward.

Finally, we should also work on our mindset. We need determination and a can-do mentality, we need courage and the willingness to take responsibility. Europe has always been strongest when it has had leaders who have taken bold steps. And this is a call to action for us all.

I hope that 2023 will one day be remembered as the year in which this realisation prevailed. ■



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