Luis de Guindos: "More Europe" and financial integration

Keynote speech by Mr Luis de Guindos, Vice-President of the European Central Bank, at the annual Joint Conference of the European Commission and the European Central Bank on European Financial Integration, Brussels, 12 June 2025.

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Introduction

I am once again delighted to speak at the annual joint conference of the European Commission and the European Central Bank on European financial integration. This is an important event for us as we come together to appraise and advance financial integration in Europe.

The recent sea change in US economic policy and the multilateral rules-based system has been an important wake-up call for Europe. The pattern of globalisation is set to shift significantly and give way to increased economic fragmentation on a global scale. Unreliability and unpredictability are likely to persist for years to come, making uncertainty a defining feature that will not be overcome any time soon. This uncertainty extends beyond trade to other domains such as monetary, fiscal or national security policy.

The European Union's success rests on the pillars of free trade and openness. Compromising these ideals threatens the very foundation upon which the EU is built. Multilateralism and international cooperation are the principles that form the basis of the EU's global governance and economic strategies. Despite this period of heightened geopolitical and policy uncertainty, the EU should stick to its values and strengthen its resolve. We must take this opportunity to strengthen the European project as its future depends on us and us alone.

While our conference is clearly centred on advancing financial integration, my main message today is that we must make progress on all fronts. The Single Market is the focal point and driving force of European integration, intrinsically linked to the EU's strategic objectives.[1] However, a true single market for goods and services within the EU remains elusive, hindered by persistent barriers and divergent national rules. National markets still often represent a major impediment to growth and innovation in sectors where global competition requires action on a European scale.

Progress on integration in the real economy – entailing the strengthening of the performance and scalability of European businesses – requires progress in its financing through banks and capital markets. But the banking union remains incomplete, while EU capital markets remain fragmented. We need to seize the moment and make progress on these three fronts in order to reinforce the Economic and Monetary Union and foster growth.

The outlook for growth and inflation

Let me say a few words about the euro area economy. Compared with the situation a year ago, our concerns have shifted from high inflation to slow growth.

The euro area economy grew more than expected in the first quarter of 2025, by 0.6% quarter on quarter. This however reflects temporary factors likely to revert. Survey data point overall to weaker prospects in the near term. Higher tariffs and the stronger euro make it harder to export, and high uncertainty is weighing on investment. At the same time, the strong labour market, rising real incomes and easier financing conditions should support growth in the medium term. This outlook is confirmed by our projections, indicating real growth rates gradually increasing from 0.9% in 2025 to 1.3% in 2027. Inflation is currently at around our 2% medium-term target. Importantly, we see wage growth moderating from still elevated levels. In our new projections, it is set to average 2.0% in 2025, 1.6% in 2026 and 2.0% in 2027. The downward revisions for this and next year, mainly reflect lower assumptions for energy prices and a stronger euro.

Given the progress with inflation approaching our medium-term target on a sustained basis, we have been able to lower our key interest rates several times, by a total of 200 basis points since June last year.

Now, though, we face exceptional uncertainty generated by geopolitical fragmentation and the volatile trade policy. The euro area economy has proved fairly resilient to date, supported by a strong labour market. That said, there may be challenges ahead, considering the size and frequency of shocks amid elevated uncertainty. While it is impossible to predict exactly what will happen, these developments may well have a dampening impact on growth in the euro area. It is therefore important for us to closely monitor what is happening in the real economy, partly as an early indicator for the inflation outlook. With inflation around our 2% target, structural reforms and growth-oriented fiscal policy become crucial to foster productivity and competitiveness in the EU.

Financial integration in the EU

This brings me back to the European project. The Single Market continues to be a cornerstone of European integration and values, serving as a powerful catalyst for growth. Given the rapidly shifting geopolitical environment we face right now, the current juncture is the right moment to look inwards and make progress on competitiveness and growth by taking bolder steps towards a truly unified single market for goods and services. The fact that integration has advanced so little in the EU real economy has, to a large extent, failed to prompt decisive integration in the banking sector and EU capital markets.

Last year I lamented the fact that financial integration was back to the levels seen at the start of the monetary union. Today I can say that we have recently observed a positive trend in the price and quantity-based measures of financial integration.[2] Importantly, this holds true for measures of integration in an equity market which is critical for sourcing risk capital for innovative and high-growth companies. This improvement also applies to the banking market, which is key to financing the small and medium-sized enterprises that form the backbone of the euro area economy. At the same time, we are still far from the levels we might wish for a truly integrated financial market.

An incomplete banking union is a large gap in our institutional framework. Despite Single Supervisory Mechanism and Single Resolution Mechanism, deposit insurance remains at the national level. This leaves the link between banks and sovereigns impossible to sever. Confidence in the safety of bank deposits still varies across countries. The geographical location of a bank also influences the outcome of a resolution process, as there is no common backstop and divergencies in national laws persist. This level of integration in the banking sector is insufficient to facilitate cross-border lending, reduce intermediation costs, foster cross-border consolidation and significantly enhance financing capacity.

The same holds true for integration in EU capital markets. Harmonising regulations and removing national divergences are crucial to simplifying the regulatory framework and creating a single, resilient market. Furthermore, having established the Single Supervisory Mechanism for banks, we need to work towards integrated supervision of EU capital markets. This could be achieved gradually and considering specific sectoral features.

The European Commission has put forward a savings and investments union strategy which provides a range of policy actions regarding financial markets. The two panel sessions today consider key bottlenecks in our capital markets: attracting more investors and channelling investments into the future.

The European Union boasts a high saving rate, which often results in capital being exported outside of our borders. A more supportive environment for investment within the EU can be created by harmonising the regulatory framework and reducing red tape. Removing obstacles in tax, insolvency and corporate law would greatly facilitate cross-border investment. This in turn would render the EU capital market more attractive for investors. Capital will naturally follow integration in the real economy.

We can also do a better job at facilitating cross-border access to the European funds market. This would help to promote access to low-cost products for retail investors and the distribution of funds across the EU. Deep and integrated equity markets are crucial for providing the necessary financing to support the European economy, which would serve to enhance productivity and resilience. Better functioning markets across borders can ensure that EU firms have access to adequate sources of finance throughout their lifecycle.When their financing needs increase and cannot be met by small and fragmented European markets, companies can decide to list elsewhere, or even relocate their operations entirely. Enhancing access to venture capital is therefore a strategic aim to enable firms with high growth potential to list domestically.

Conclusion

Let me conclude.

The call for "more Europe" resonates more strongly than ever. This arises from the growing risk of over-reliance on non-European powers and the decreasing importance of any single country on the global stage. High levels of uncertainty, elevated risks from geopolitical tensions and potential disruptions in global trade leave the EU's economic outlook fragile.

The use of the US dollar in international funding, payment and trade transactions, or as a reserve currency, will not be challenged in the short term. But the role of the euro can gradually expand, especially if we deliver on "more Europe". Dismantling long-standing barriers to full integration in the single market for goods and services and taking decisive steps towards a true banking and capital markets union will only enhance the international role of the euro.

The stakes have never been higher for Europe. To deliver on its fundamental values, Europe needs to deliver on the long-term growth and resilience of its economy. Completing the banking union and deepening Europe's financial markets are essential for allocating capital more effectively and providing benefits to savers. They are also essential to promote and retain innovative companies, as well as to attract talent and investment.

Banks and capital markets are not competing for a limited amount of investment opportunities -– they are closely interconnected as parts of a wider financial ecosystem that finances the real economy. To move on to the next level, we need integration in the real economy and political will to give priority to the European project over national interests. There is no way around it. We need decisive progress on all three fronts.

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[1] Letta, E. (2024), "Much More Than a Market: Speed, Security, Solidarity – Empowering the Single Market to deliver a sustainable future and prosperity for all EU Citizens", Institut Jacques Delors, France, 27 April.

[2] See "Indicators of financial integration and structure in the euro area" on the ECB's website.