
One of the economic priorities of the Slovak presidency of the Council of the EU is to achieve further progress in the development of the Capital Markets Union (CMU). The goal of the CMU is to create a single European market for capital by 2019. After the creation of the monetary union in 1999 and the banking union in 2014, the CMU could be another milestone in the process of European integration.

Professor Pastor’s lecture begins by briefly reviewing the project’s progress to date. It then discusses why Europe needs the CMU, pointing to the underdevelopment of European capital markets. It continues by describing how Europe would benefit from a single capital market, highlighting cheaper financing for firms, better investment opportunities for households, and financial stability benefits for the society as a whole. The single market would also support growth and innovation. The lecture continues by identifying the key barriers to the development of European capital markets, such as the planned financial transactions tax, EU fiscal rules, ultra-low interest rates, and financial illiteracy.

Pastor believes that the CMU project could and should be more ambitious. The European Commission plans to follow a bottom-up approach, patiently removing obstacles to the single market one by one. Pastor finds this approach too slow. He believes the Commission’s accomplishments thus far are worthy but modest, representing small steps in the right direction. Pastor believes that the plan would benefit from adding centralized elements such as a single financial market regulator.

He also supports the introduction of pan-European private pensions. Such a move would boost capital market development by promoting the growth of private pension funds as well as by educating European households about capital markets. Pan-European private pensions would also encourage labor mobility in Europe and improve the sustainability of European pension systems in light of the gloomy demographic trends. However, like the creation of a single regulator, the introduction of such pensions would require top-down political action of the kind not envisioned under the current plan.

The lecture then discusses the relevance of the recent Brexit vote for the future of the CMU project. The vote was followed by an immediate resignation of Britain’s European Commissioner Jonathan Hill who had been a key driver of the CMU project. Pastor bemoans the end of the British involvement in the CMU, and in the EU more generally, praising Britain’s pro-market influence on European affairs. However, he believes that Brexit need not derail the CMU project. In fact, Britain’s departure could potentially create room for a more ambitious outcome. Britain has pushed hard for a gradual bottom-up approach to building the CMU. After Britain’s departure, it is more likely, though far from guaranteed, that the CMU project will acquire some top-down elements such as single supervision.

Pastor concludes that the CMU has the potential to bring numerous benefits to European firms and households. He believes that the benefits to Slovakia could be particularly large given the low level of development of the Slovak capital market. He expresses the hope that Slovakia will take advantage of its EU presidency by pushing for significant progress in the CMU project.