



EUROPEAN CENTRAL BANK

EUROSYSTEM

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CONTRIBUTION OF THE EUROSYSTEM

to the public consultation of the European Commission on the communication

“Towards a Single Market Act”

I. GENERAL CONSIDERATIONS

(i) Re-launching the Single Market as a step towards deeper Economic Union

The Eurosystem welcomes the fact that the Commission has identified the Single Market Act as one of the priority fields for policy action during the period 2011-2012. The Single Market is at the core of the Union’s growth agenda and has been delivering solid results. The Eurosystem strongly supports the initiatives aimed at re-launching the Single Market as part of the Union’s overall policy effort to address the prevailing structural challenges faced by the EU economy. A widening and deepening of the Single Market should be viewed as an opportunity to raise the “speed limit” of the economy, which is highly warranted in the aftermath of the impact the financial crisis had on the European economy.

The completion of the Single Market is moreover an essential ingredient of the required quantum leap towards a deeper economic union that is commensurate with the degree of economic integration and interdependency already achieved through monetary union. EMU has led to a strengthening of trade integration and competition within the Single Market by enhancing market access, reducing the costs of cross-border activities and increasing price transparency. At the same time, a well-functioning and flexible Single Market is pivotal for the smooth functioning of EMU. It allows for swift and market-based adjustment in the case of shocks and facilitates the correction of economic imbalances.

(ii) Enhancing potential growth and facilitating the conduct of monetary policy

Many of the proposals listed in the Commission’s communication deserve further consideration. However, the Eurosystem would give priority to the areas with the highest potential for increasing growth and supporting price stability and the conduct of monetary policy. A permanently higher growth path will help to overcome current fiscal challenges and underpin the sustainability of public finances.

The Eurosystem strongly supports the initiatives aimed at the completion of the single market for services as an important source of potential growth and as a means to enhance competition and productivity. The proposals targeting retail banking services are particularly welcome given the relatively slow pace of integration in this area to date. The envisaged reforms in labour markets are of key importance to the extent that they facilitate labour mobility, thereby providing an important

adjustment mechanism in EMU. The Eurosystem also encourages product market reforms in the areas of electronic commerce, financing of small and medium-sized enterprises (SMEs) and public procurement. These reforms are expected to boost competition, increase innovation and productivity and make the EU more competitive globally. Finally, the Eurosystem shares the view that companies' legal and fiscal environment should become more business-friendly so as to reduce the administrative burdens and promote cross-border activity.

From the perspective of the single monetary policy, all proposals aiming at further integrating product, factor and financial markets must be considered as important contributions for smoothing out intra euro area differentials in inflation and economic growth. Their full implementation would increase the resilience of the euro area to asymmetric shocks. Progress in financial market integration would in particular contribute to reducing the emergence of heterogeneous economic developments across the euro area. At the same time, it would strengthen the effectiveness of the monetary transmission mechanism by making its interest and bank lending channels more homogenous.

The rapid and full implementation and enforcement of all legislative acts related to the Single Market is crucial to fully realise the benefits of a unified European market. The Eurosystem therefore encourages all proposals targeted on speeding up the transposition of Single Market directives into national law. In this context, the use of regulations seems preferable over directives.

II. COMMENTS ON SPECIFIC PROPOSALS

(i) Full implementation of the Services Directive

The Eurosystem stresses that measures aimed at increasing market competition in the services sector may contribute to higher labour productivity growth and have a dampening impact on relative price changes in some services sub-sectors. It is crucial that the Directive is implemented fully and effectively in all Member States, allowing the EU to reap the potential benefits in terms of GDP, consumption and trade as soon as possible. The completion of the single market for services should remain a policy priority for the EU Member States.¹

(ii) Further integration in retail banking services

The Eurosystem strongly encourages initiatives in the area of retail banking services to allow consumers to fully reap the benefits of the single market. The ECB's 2010 report on financial integration points to the fact that the pace of integration in the area of retail banking has been comparatively slow, largely owing to legal, regulatory, technology and information-related barriers. The current proposals aim at improving the access to basic banking services and enhancing the

¹ See "Competition in and economic performance of the euro area services sector", ECB Monthly Bulletin (May 2007).

transparency and comparability of bank charges. These measures present an important step towards creating a single market for retail banking services and would complement the completion of the single euro payments area.²

(iii) An integrated mortgage market

European mortgage markets are identified by the Commission as an area which would benefit from further integration and an enhanced framework for consumer protection. The Eurosystem encourages the creation of a single integrated mortgage market as it should result in a more homogenous transmission of monetary policy impulses across euro area countries. At the same time, the ECB's report on financial integration in Europe from 2008 stresses that any initiative in this field needs to take into account possible implications for financial stability.

(iv) Increasing skills matching and labour mobility

The Eurosystem welcomes the initiatives aimed at improving the recognition of professional qualifications and the transferability of pensions to increase skills matching and job mobility in EU labour markets. As labour mobility is instrumental for the ability of national labour markets to adjust to economic fluctuations and asymmetric shocks, the implementation of these initiatives is especially relevant for the smooth functioning of EMU. Beyond that, better access to education and training opportunities in other European countries is vital to raise labour productivity and hence contribute to rising potential output growth.

(v) Improving access to finance

The Eurosystem supports the proposals targeted at SMEs, particularly the initiative to improve the access of SMEs to capital markets. SMEs are the backbone of the European economy and offer a high potential to create employment and economic growth. At the same time, both the ECB's Bank Lending Survey and the ECB-European Commission survey on Access to Finance survey reveal that SMEs often tend to face more stringent financial constraints and a higher cost of external finance than large firms. The financial crisis, together with the economic downturn, has resulted in less capital being available to SMEs and entrepreneurs. These constraints may adversely affect their ability to invest in capital and research and development, hampering their innovation efforts and growth prospects.³ Against this background, the proposed measures to enhance the integration and dynamism of the single capital market for SMEs are important to improve access to capital and diversify the sources of financing.

A harmonised and tailored regime for SME capital markets would provide a number of benefits. It would provide a nursing ground for small companies to expand until they are large enough for the main market, maintain the commercial viability of small companies through economic cycles by ensuring access to capital, stimulate regional economies and offer alternative paths for capital intermediation.

² See "Single Euro Payments Area seventh progress report: Beyond theory into practice", ECB (2010).

³ See "Financial integration in Europe", ECB (2009).

Specialised stock markets, for example, as long as they have low barriers of entry and simplified rules compared with traditional stock exchanges, would facilitate the equity issuance process which is currently partly hindered for SMEs by excessive red tape and the lack of harmonisation in the EU internal market. From the SME's perspective, seeking a listing may be beneficial for future development, management succession, diversification of funding and greater commercial visibility.

As regards the proposal to create project bonds for the financing of European projects, the Eurosystem underlines that any such initiative needs to avoid the risk of reducing transparency of public finances through the creation of implicit liabilities.

(vi) Further developing electronic commerce

The Eurosystem supports the development of electronic commerce in the internal market and calls for an acceleration of the proposed measures. The digital economy is potentially a major source of growth and innovation. As the digital economy expands and more customers use internet-based transactions it has to be ensured that the physical barriers that are being dismantled in the real economy do not remain obstacles to trade in the digital world. A more integrated digital market could bring important gains for consumers and greatly increase competition in the EU, thereby boosting productivity and growth potential.

(vii) A Single Market for public procurement

The Eurosystem considers further integration in the EU market for public procurement an important avenue to foster deeper economic integration given that goods and services procured by public authorities account for approximately 17% of GDP in the EU.⁴ Since competition for public procurement contracts remains deeply fragmented along national lines, simpler and updated European rules to make the award of contracts more flexible would have a positive impact on national budgets while fostering innovation, cross-border trade and competition.

(viii) Creating a global level-paying field

The Eurosystem supports the pursuit of dialogue with international partners, both bilaterally and in the context of the G20, to promote regulatory convergence and international standards. The openness of markets needs to be ensured and protectionist impulses have to be counteracted.

⁴ Commission Communication of 11 November 2010, p.14.