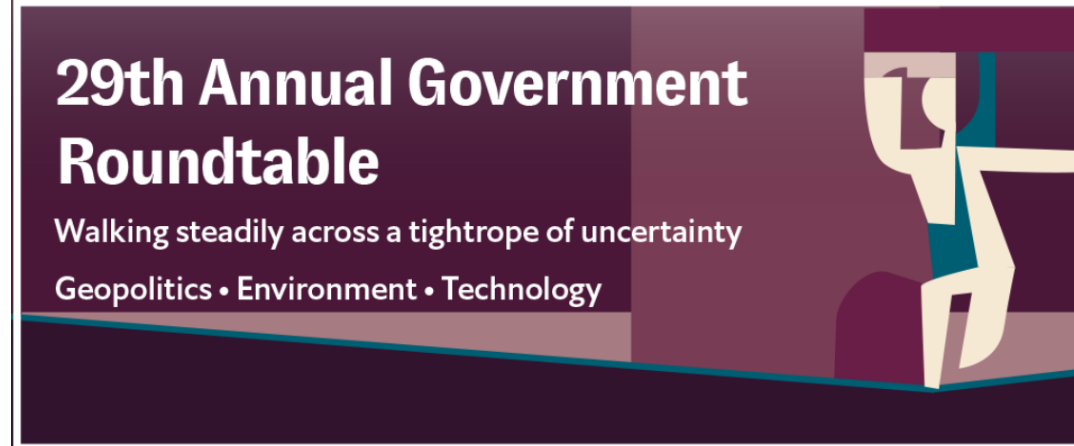


# “The single market as a catalyst for investment”

by

**Gikas A. Hardouvelis**



**Session: “Single Capital Market: much more than a market?”**  
**Grand Resort Lagonissi, Greece, 3 July 2025**

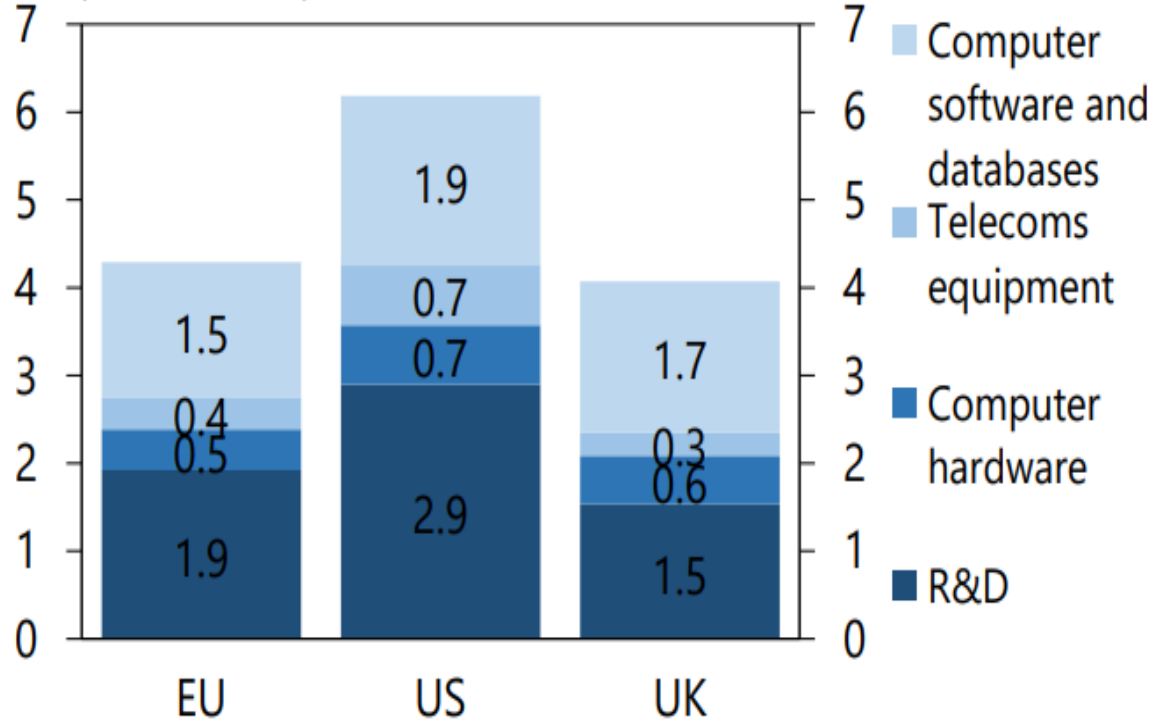
# To raise growth, Europe needs higher levels of investment

- ❑ Europe lags behind the US in productivity and growth.
- ❑ There is a need to increase the share of investment in GDP, particularly in high tech.
- ❑ Financing the extra investment is less of a problem.
- ❑ Europe saves a lot (it has current account surpluses) but its savings,
  - instead of financing higher domestic investment,
  - are exported and finance countries with current account deficits like the US.
- ❑ The recent proposals for a European Investment and Savings Union aim to rectify this disequilibrium, namely channel European savings to European investment projects.
- ❑ A well-functioning single market would raise investment opportunities and facilitate the desired increase in investment.
- ❑ In the past, big European political projects helped raise the level of investment. Will investment also increase today?

# Europe needs R&D and ICT investments to improve labor productivity

IP and ICT Investments Breakdown, 2000-20

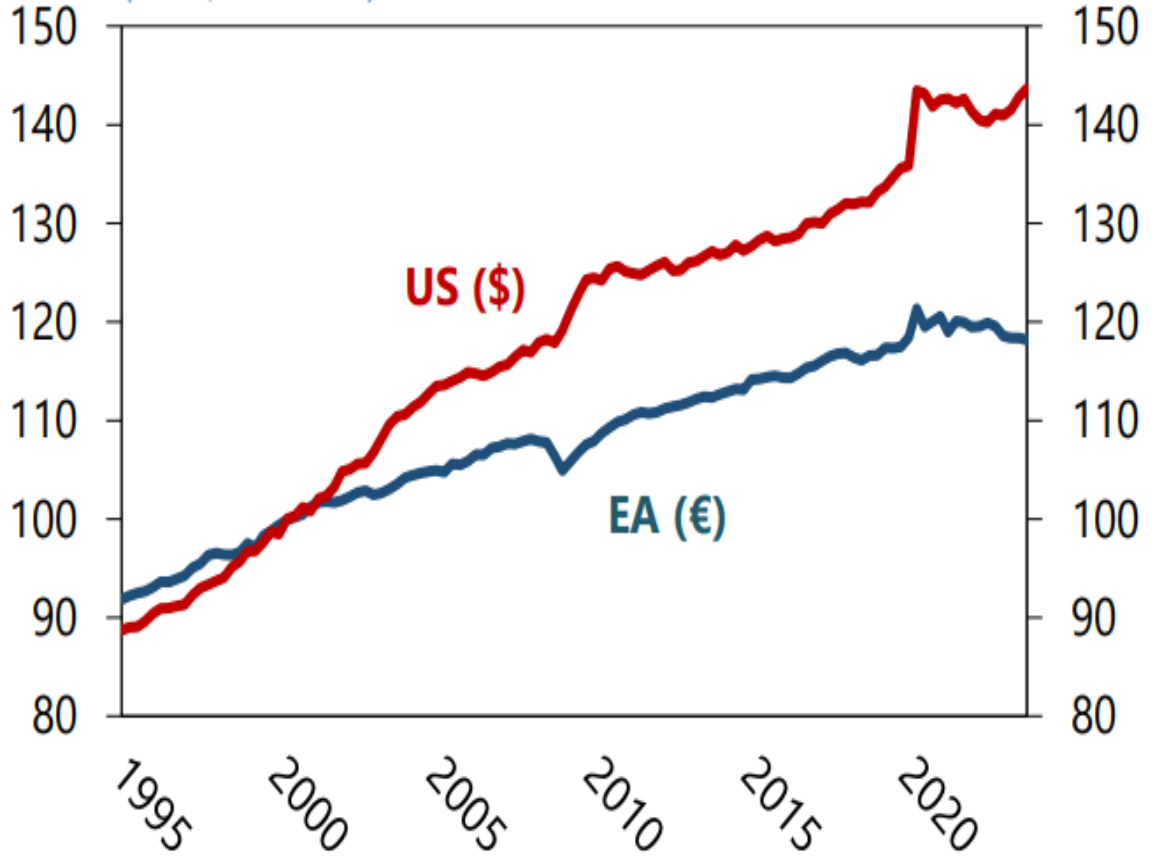
(Percent of GDP)



Sources: OECD; and IMF staff calculations.  
Notes: EU excludes Cyprus and Malta due to lack of data and Ireland because multinationals' accounting practices excessively inflate its numbers. Denmark and Poland 2020 data is unavailable.

Real GDP Per Hour Worked, 1995-2023

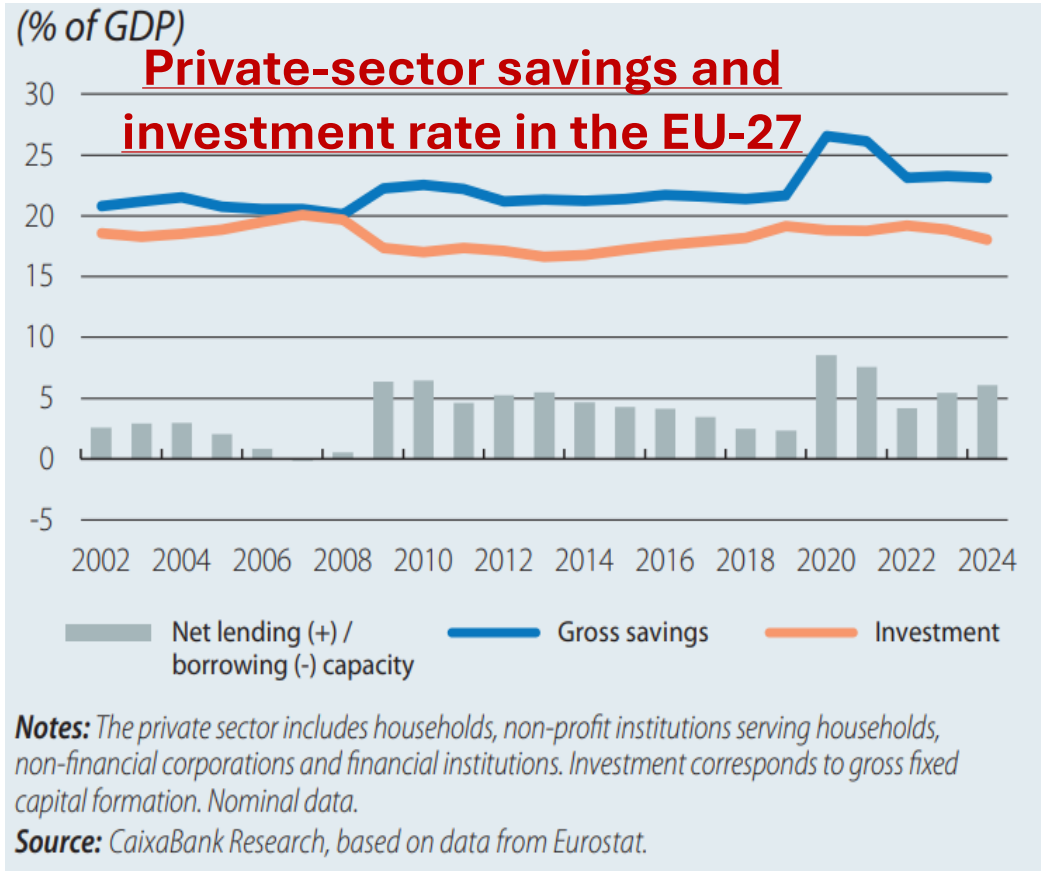
(Index, 2000=100)



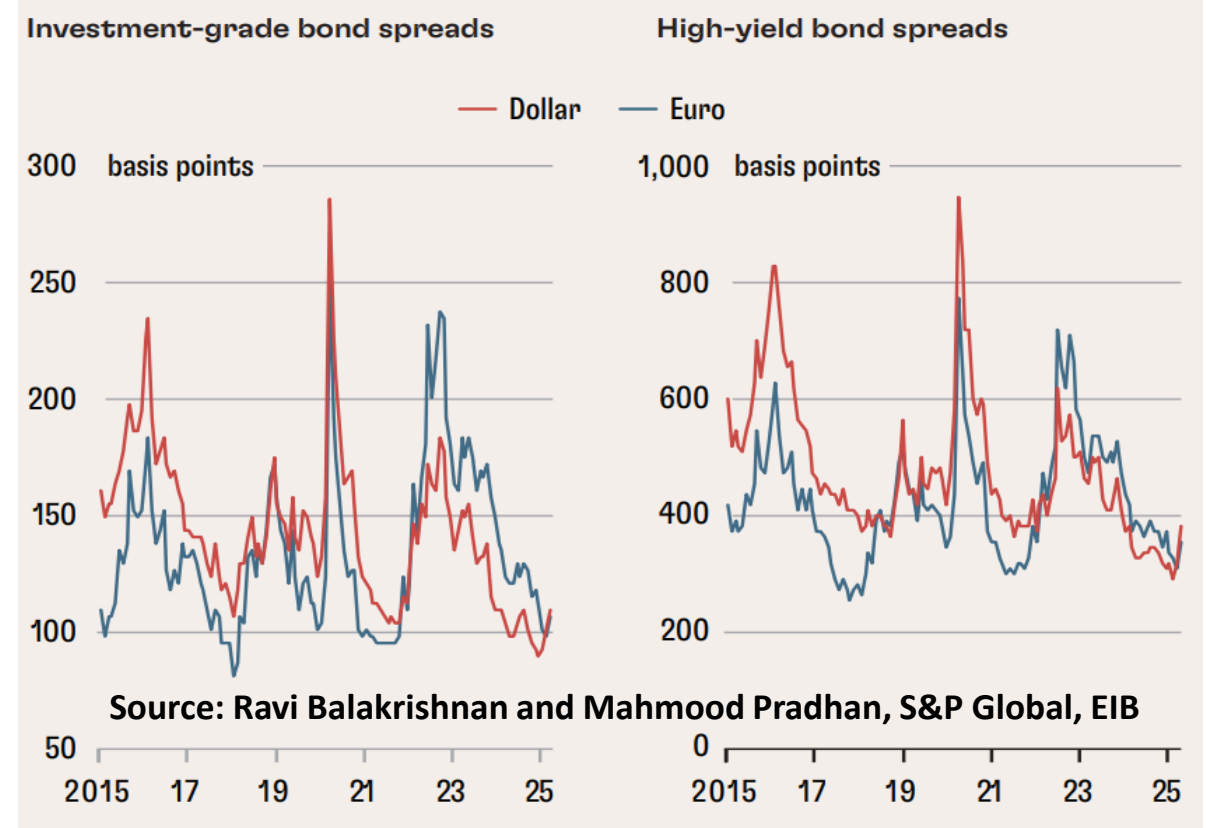
Sources: Haver; and IMF staff calculations.

Source: IMF Working Paper, July 2024

# Europe: There is plenty of savings to finance its investment needs

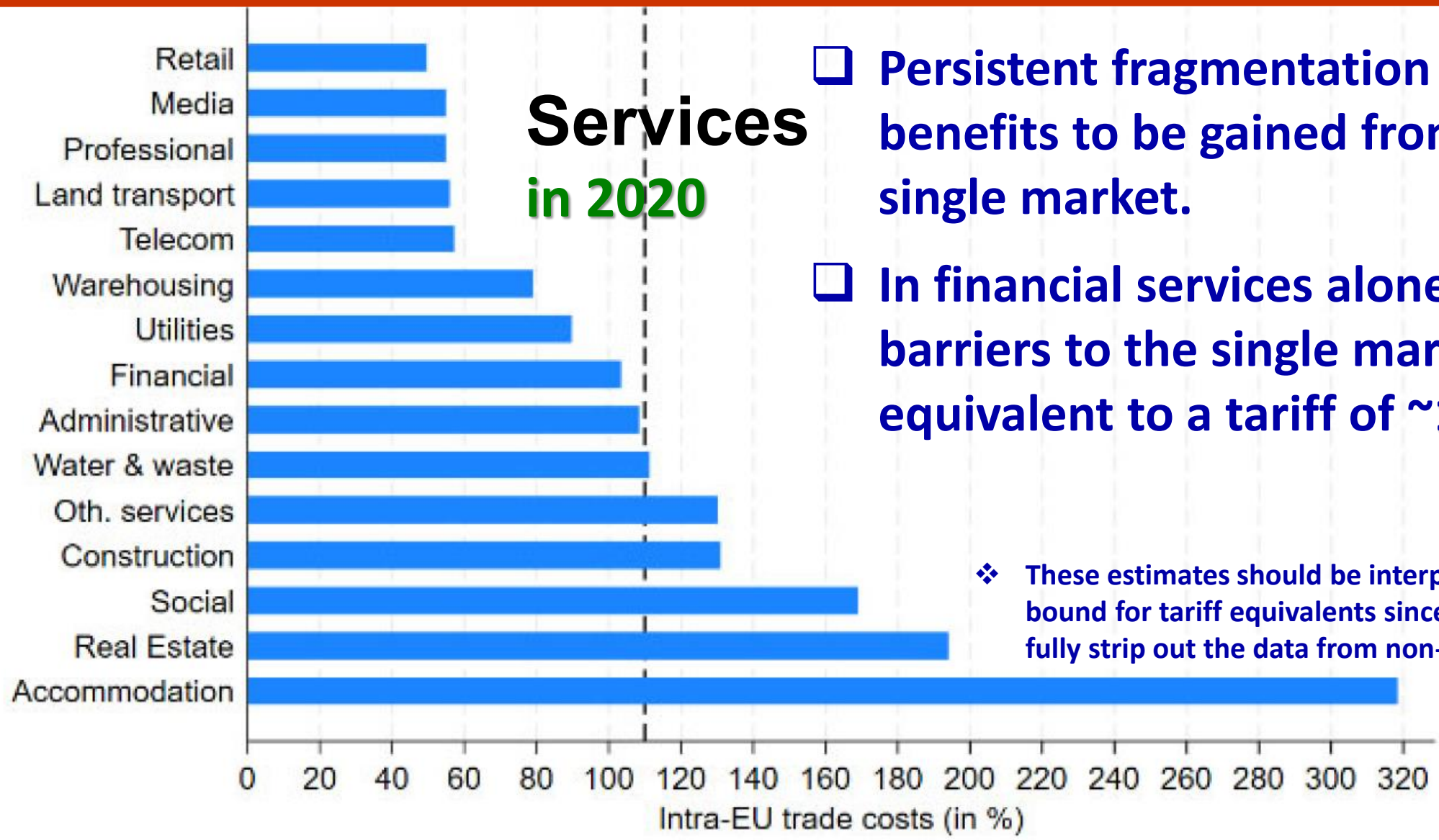


## Corporate spreads across the Atlantic



- ❑ European savings are higher than European Investment rates. The extra savings are exported abroad, financing the current account deficits of countries like the US.
- ❑ Financing is not an obstacle to European investment. Financing exists and at comparable to the US yields.

# Intra-EU trade barriers act as tariffs, reducing investment opportunities



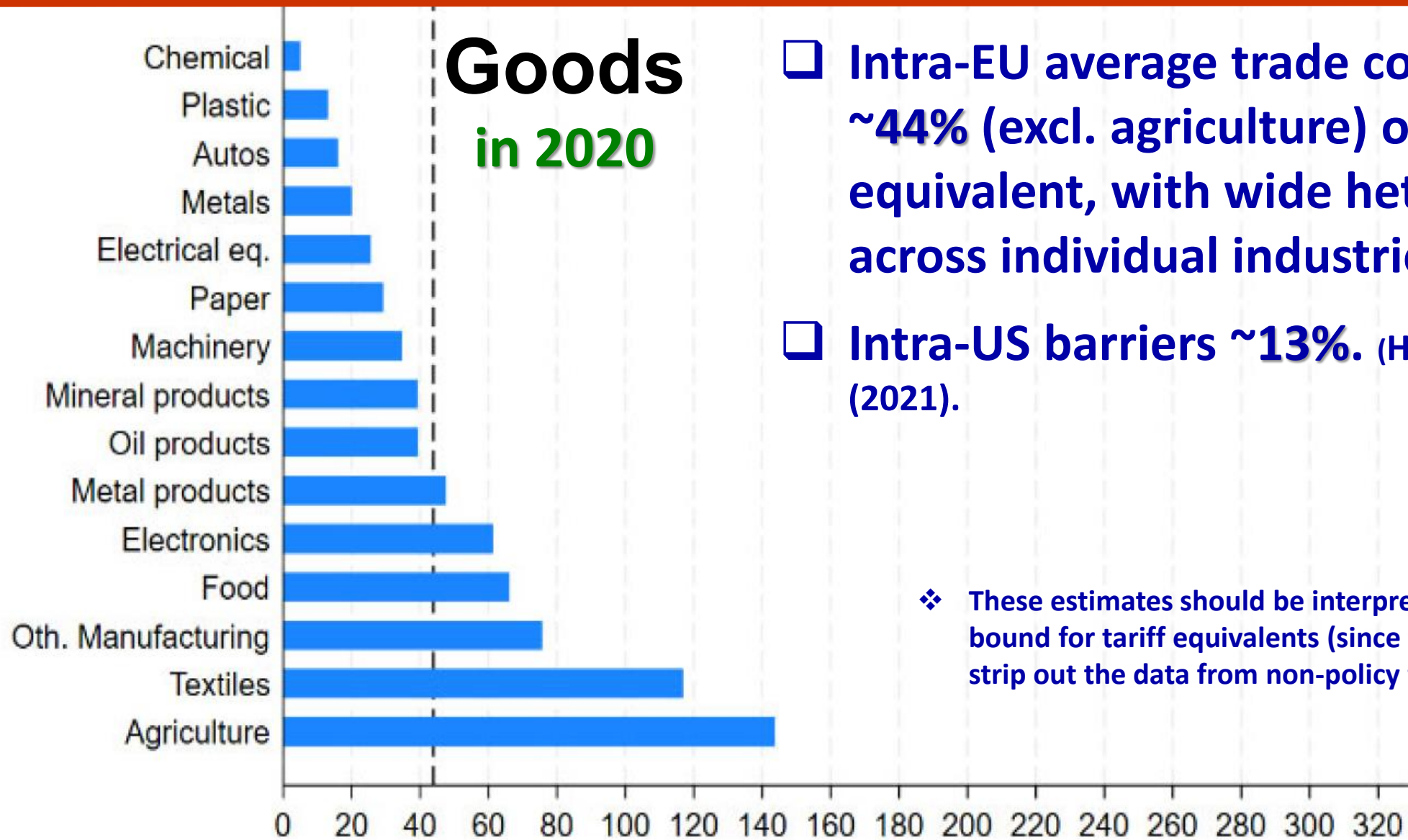
- ❑ Persistent fragmentation limits the benefits to be gained from the EU's single market.
- ❑ In financial services alone, internal barriers to the single market are equivalent to a tariff of ~100%.\*

❖ These estimates should be interpreted as an upper bound for tariff equivalents since they might not fully strip out the data from non-policy factors).

Source: IMF, Regional Economic Outlook Nov2024, Europe's Declining Productivity Growth: Diagnoses and Remedies p.19, Estimations from gravity models for bilateral trade flows in 2020.



# Intra-EU trade barriers act as tariffs, reducing investment opportunities



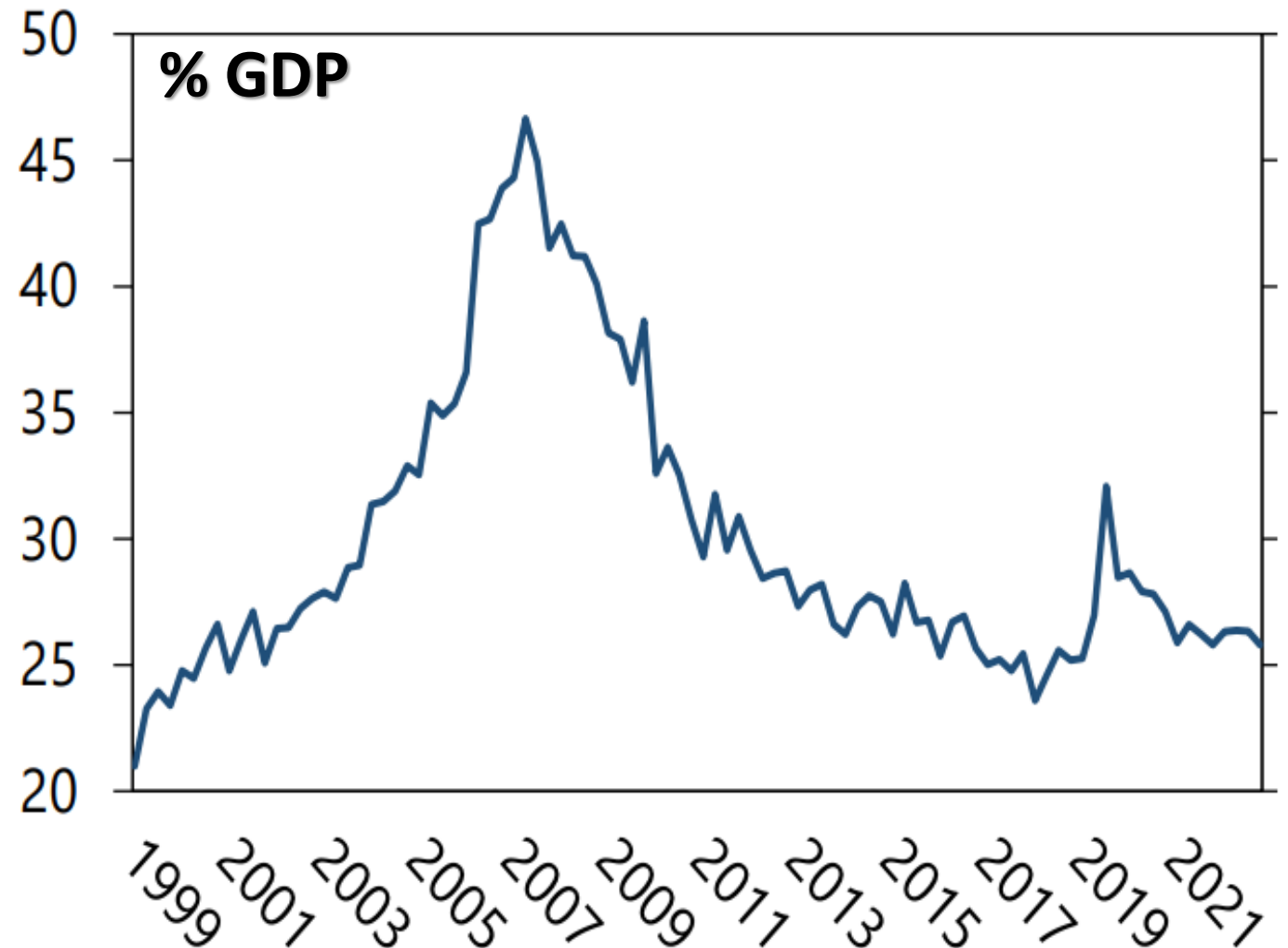
- ❑ Intra-EU average trade costs for goods ~44% (excl. agriculture) of tariff equivalent, with wide heterogeneity across individual industries.\*
- ❑ Intra-US barriers ~13%. (Head and Mayer (2021)).

❖ These estimates should be interpreted as an upper bound for tariff equivalents (since they might not fully strip out the data from non-policy factors).

Source: IMF, Regional Economic Outlook Nov2024, Europe’s Declining Productivity Growth: Diagnoses and Remedies p.19, Estimations from gravity models for bilateral trade flows in 2020.

# Intra-EA12 cross-border Bank Claims keep declining after GFC

- ❑ Market fragmentation shows up in the financial sector.
- ❑ Following the creation of the Euro Area, fragmentation was declining.
- ❑ Yet, after the global financial crisis of 2007-09, fragmentation is getting worse.



Sources: BIS Consolidated Banking Statistics - Immediate Counterparty Basis; and IMF Staff calculations.

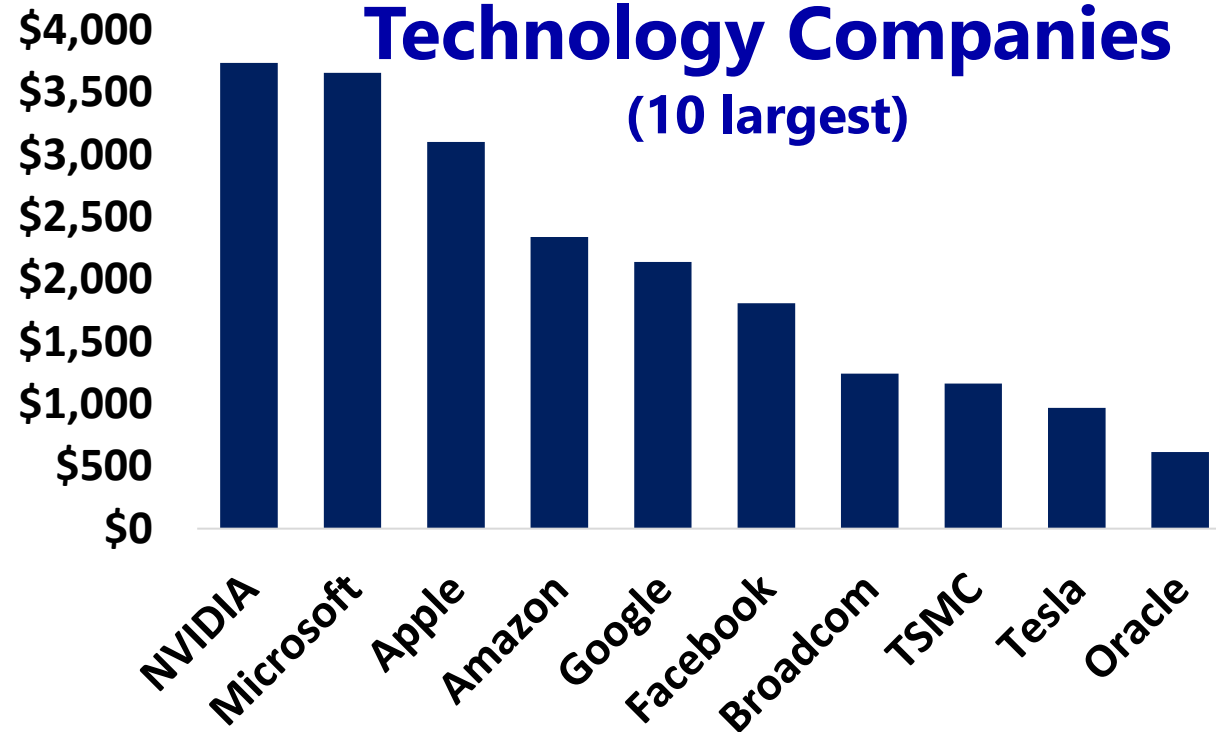
Source: IMF Working Paper, July 2024

# Not only capital markets - the banking sector is also small in Europe

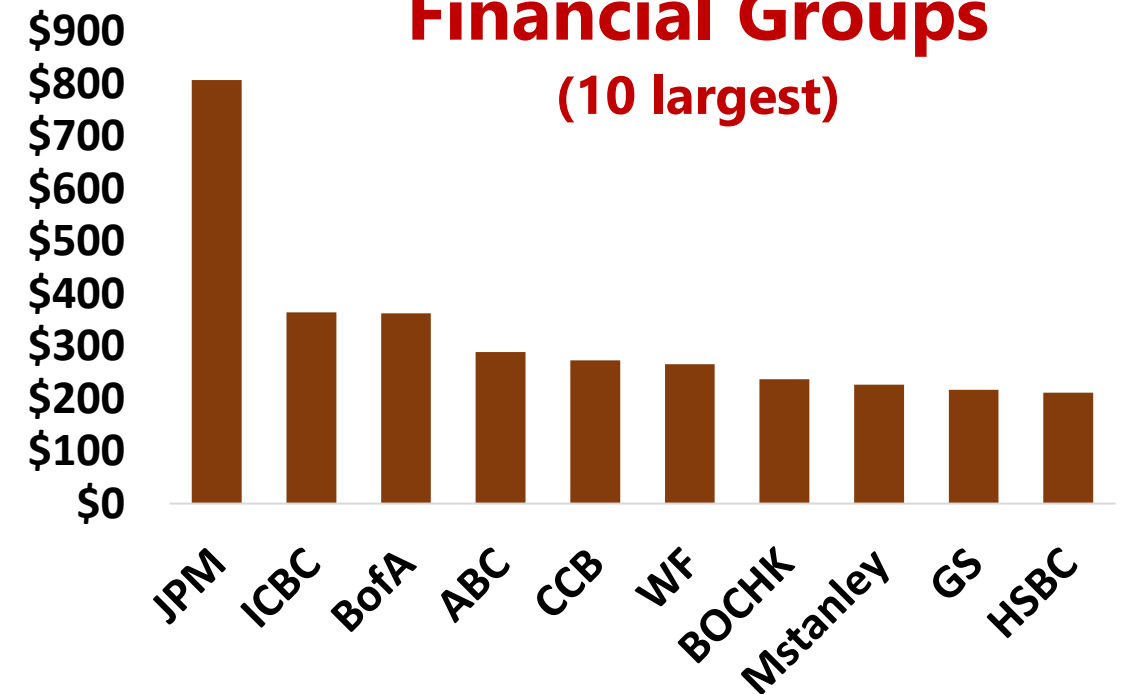
- ❑ EU is a bank-based economy with under-performing capital markets.
- ❑ Yet even the banks in Europe are small relative to US banks, and those are even smaller relative to IT companies, none of which is European.

## Market capitalization (\$bn, July 1, 2025)

### Technology Companies (10 largest)



### Financial Groups (10 largest)

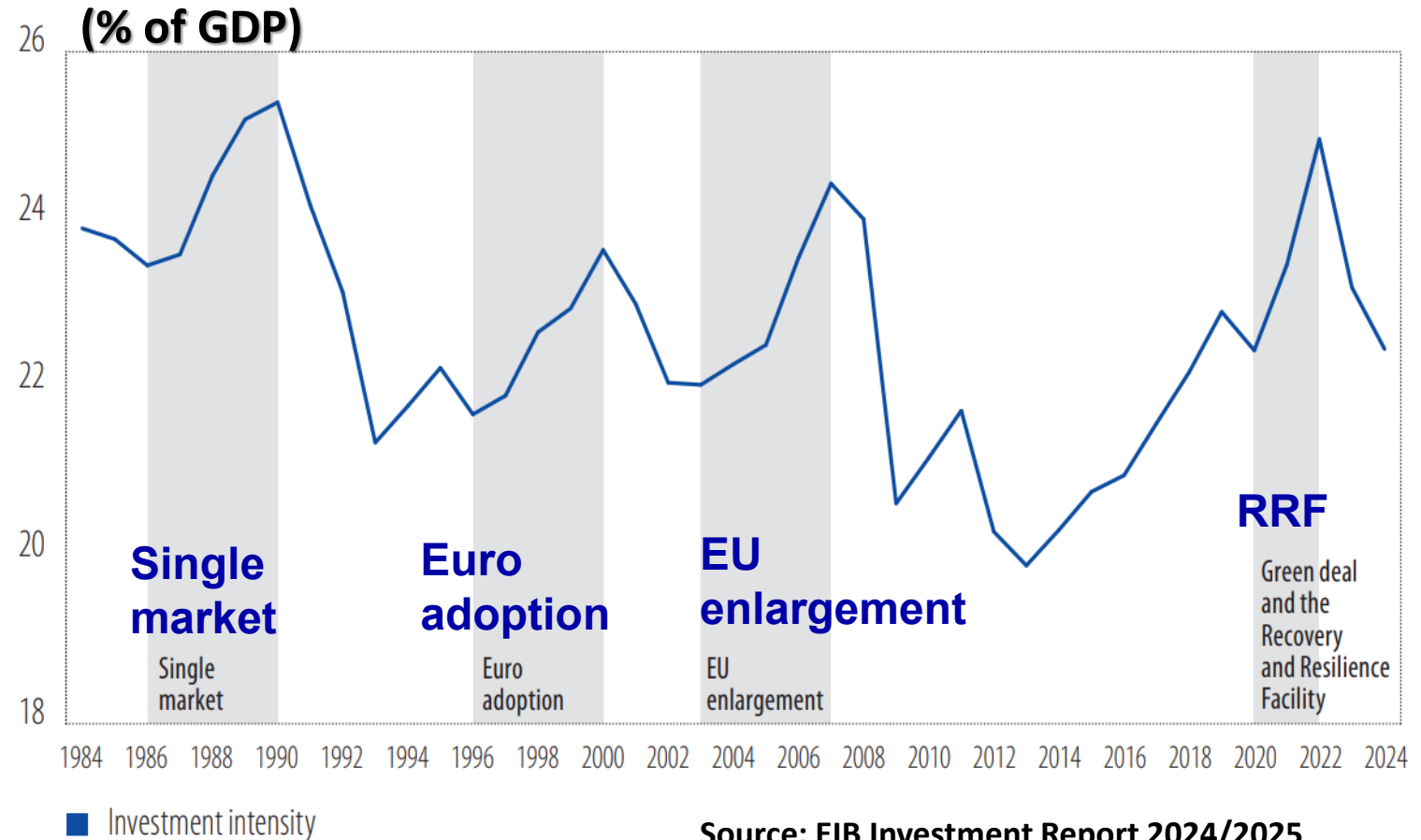


Source: Bloomberg



# Can the current effort for a S&I Union increase investment rates?

- ❑ Periods of rising investment in the past 40 years point to the power of combining an investment push with an increase in business opportunities (EIB study).
- ❑ Four episodes of investment accelerating in response to a combination of *structural and regulatory shifts* that created business opportunities, the availability of finance and policy incentives.
- ❑ Perhaps Europe may reduce the growth gap with the US also because of Trump economics (seems to work against MAGA), which works against the US comparative advantages (e.g. research & innovation, immigration, global reserve status of the dollar).



Source: EIB staff calculations based on the International Monetary Fund's World Economic Outlook for October 2024.  
Note: The rate is calculated for countries that are currently members of the European Union.

# The single market as a catalyst for investment

Thank you for your attention!

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