Polska Prezydencja w Radzie UE
Polish presidency of the Council of the EU
Présidence polonaise du Conseil de l'UE

**Presidency Issue Note for the April Informal ECOFIN Council**

**Working session I**

**The Competitiveness of European financial markets and their role in supporting investment in an uncertain environment**

The European economy is currently facing significant challenges. To meet them we need higher economic growth and increased productivity, while maintaining equity and social inclusion. Europe has the potential to overcome these hurdles, but it must take decisive action to secure long-term prosperity by improving its competitiveness. Financial markets have a crucial role to play in this process.

However, the European capital markets themselves face several significant challenges that hinder their development and global competitiveness. A major issue is market fragmentation stemming from divergent national regulations and supervisory practices, which create barriers to cross-border investment. This complexity discourages both investors and issuers, limiting the potential for scale and integration.

Another pressing challenge is the relatively limited role of equity financing in Europe compared to the United States, where companies rely more heavily on capital markets than on bank lending. Moreover, the lack of deep, liquid markets for risk capital, especially for start-ups and innovative enterprises, slows down economic dynamism. Europe also lags behind in attracting global capital, partly due to perceived regulatory burdens and insufficient incentives for private investment. Enhancing transparency, harmonizing regulations, and promoting financial literacy are therefore essential to strengthening the capital markets and ensuring their long-term resilience and attractiveness.

Uncertainty caused by tariffs

Following the United States decision of 2nd April to impose tariffs, global markets have been under significant pressure, with stock markets around the world glowing red.

These developments reflect investors reactions to the US administration's trade policy decisions. Tariffs impact all parties, disrupting supply chains and global trade. In recent days, the consequences have been especially pronounced in financial markets. European markets have recorded sharp declines amid heightened uncertainty, driven by fears of a trade war and further escalation - risks that are difficult to quantify or incorporate into business models. In the context of trade and confidence shock, and with little prospect of swift negotiations, it is essential to maintain stability and competitiveness of the financial markets.

The greatest source of concern is the uncertainty itself, and in particular the risk of a tariff war escalating as a result of other countries' reactions to US tariffs. As such volatility becomes a feature of the global economy, capital markets may become more fragmented and more risk-averse, with investors seeking shelter in short-term instruments or safer jurisdictions.

The direct impact of these developments on European financial markets should be constantly monitored in this dynamically changing reality.

Given the close links between financial markets and the real economy, tariff decisions can affect prices, inflation levels and the economic situation of families.

The financial market situation will lead to increased operational risk in the economy due to unexpected volatility, potential production disruptions and difficulties in conducting business. Small and medium-sized enterprises, which are the backbone of the European economy, are particularly vulnerable to the negative effects of trade tensions and newly imposed tariff barriers. Unlike large corporations, SMEs have limited capacity to diversify supply sources or export markets, and fewer resources to absorb sudden cost increases or regulatory changes. These shocks could result in unforeseen damage to the financial sector, particularly in market segments most exposed to cooperation with the US. Ongoing trade tensions and tariff disputes also pose a broader threat to financial market stability, potentially raising borrowing costs, reducing liquidity and decreasing the overall value of financial assets.

Economic disruptions are often transmitted directly to the financial markets and vice versa – periods of prolonged volatility limit the ability of markets to allocate resources efficiently. The situation on the global stock exchanges also affects the valuation of financial institutions and citizens' future pension provisions.

Issues for discussion

- *How do you envisage the process of boosting European competitiveness in the field of financial markets?*
- *Given the need to preserve financial stability and strengthen competitiveness as well as economic growth, should additional measures be applied in the current situation? How should capital market development plans be modified to allow for implementation in the event of a potential tariff war and the resulting broad-based bear market?*
- *How should Europe (EU, Member States, other European countries) react to the events in the financial markets in the short and medium term?*