Brussels, 18.3.2014
SWD(2014) 115 final

COMMISSION STAFF WORKING DOCUMENT

on the free movement of capital in the EU

EN EN

TABLE OF CONTENTS

1. INTRODUCTION 1
2. DEVELOPMENTS IN CAPITAL FLOWS 2
    2.1 EU financial flows in the global context 2
    2.2 Foreign direct investment 3
    2.3 Portfolio investment 6
    2.4 Other investment (including cross-border bank lending) 7
3. DEVELOPMENTS IN THE SINGLE MARKET FOR CAPITAL 8
    3.1 Financial stability 9
    3.2 Monitoring, enforcement and policy actions 11
4. CONCLUSION 13

1. INTRODUCTION

The efforts made by the EU since the economic and financial crises — including the programme of financial reform and the establishment of a Banking Union — have been essential in restoring stability. Although stability is crucial for recovery and growth, these efforts need to be accompanied by the flow of capital within and into the Single Market, to support sustainable and inclusive investment that can expand the economy and create jobs.

International flows of capital were one of the factors underpinning the current global financial crisis, as they exacerbated global external imbalances. Net financial flows (which are the counterpart of net current account balances) resulted from capital moving from surplus countries to deficit countries, and thus contributed to creating low interest rate environments and fuelling excessive credit and asset bubbles. These imbalances occurred in the EU, too: in 2009, just before the onset of the sovereign debt crisis, some Member States displayed sizeable current account surpluses while others had large current account deficits relative to their GDP. This, in turn, resulted in significant financial resources flowing from the surplus Member States to the deficit Member States.

Since the onset of the crisis, several Member States have experienced both sudden stops on capital inflows and capital flight.[1] In some cases, this behaviour by investors further aggravated the banking and sovereign debt crises, by draining financial resources from the countries that most needed them.

Against this backdrop, this annual Commission staff working document aims to give an overview of developments in the free movement of capital, on the basis of the latest examination of the movement of capital and freedom of payments carried out by the Economic and Financial Committee (EFC) of the EU.[2]

The document describes the behaviour of EU capital movements in 2012 (and 2013, where data are available).[3] It reports on developments in the functioning of and the legal framework for the Single Market for capital, and relevant action taken by the Commission.[4] As capital movements do not stop at borders, the document also appraises the external aspects of the Single Market for capital. This is important in light of the need to ensure that the EU continues to be an attractive destination for investment, as set out in the Commission's Green Paper on the long-term financing of the European economy.[5]

---

[1] The following terms are used to describe the behaviour of capital flows: 'surges' and 'stops' (sharp increases and decreases, respectively, of gross inflows) and 'flight' and 'retrenchment' (sharp increases and decreases, respectively, of gross outflows).

[2] Article 134(2) of the Treaty on the Functioning of the EU (TFEU).

[3] Based on a study carried out by London Economics: *'Analysis of developments in the field of direct investment and M&A — 2013'*. Available at: http://ec.europa.eu/internal_market/capital/reports/index_en.htm#maincontentSec4.

[4] Croatia became an EU Member State on 1 July 2013 and is therefore not covered by this document.

[5] COM(2013) 0150 final.

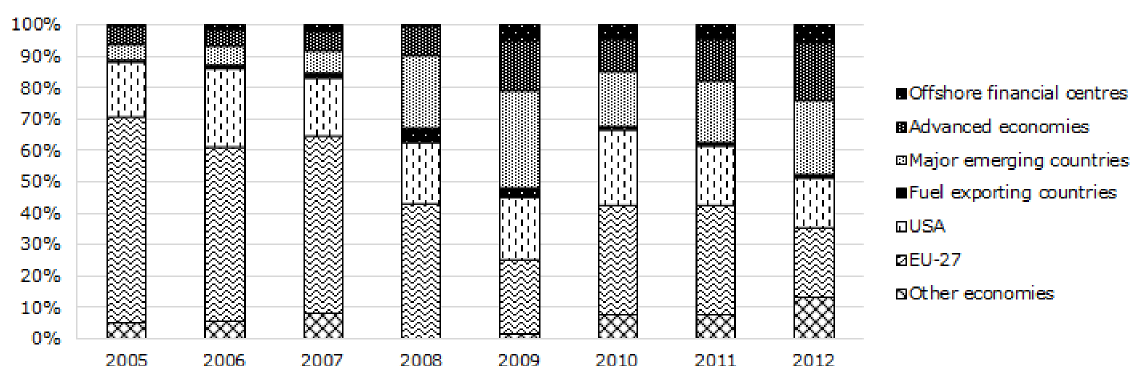
2. Developments in capital flows

2.1 EU financial flows in the global context

In 2012, global financial resources declined by EUR 934 billion relative to 2011. This decrease reflected a drop in foreign direct investment (FDI) and other investment (including cross-border bank lending), which was only partially offset by a recovery in portfolio investments.

Reflecting this general downward trend, the EU's share of total gross capital inflows fell sharply compared with 2011, to 22 %. The United States experienced a similar significant drop, mirroring an increase in the share of inflows to major emerging economies (Figure 1).

Figure 1: Share of world capital inflows by country group, 2005-12



Source: IMF balance of payments statistics.

Note: Data exclude financial derivatives.

This was driven mainly by the following factors:

- low interest rates resulting from accommodative monetary policies in the euro area and the United States prompted capital to flow to emerging markets in search of higher yields;
- higher GDP growth in emerging markets than in advanced economies improved the attractiveness of the former as destinations for international capital; and
- investors were generally more sanguine about growth prospects in emerging economies than in advanced economies throughout the year, according to business confidence indices.

Within the EU, there are significant differences between Member States. Germany and the Netherlands experienced the largest financial account deficits as a share of GDP in the EU. In other words, these Member States had excess savings that could be directed to investment in other countries. At the other end of the spectrum, Cyprus and Finland had the largest financial account surpluses as a share of GDP, reflecting their dependence on external capital to finance their current account deficits.

However, such net flows mask large differences in gross flows.[6] For example, although Luxembourg's net financial flows were only -3.6 % of GDP in 2012, gross flows of foreign capital amounted to EUR 493 billion, i.e. 1 149 % of GDP, while domestic capital flowing out of the country came to EUR 503 billion, i.e. 1 172 % of GDP. Other Member States with large gross capital flows relative to the size of their economies (though not to the extent of Luxembourg) included Belgium, Greece, Malta, Ireland, Finland, Estonia and Sweden.[7]

Gross capital flows are large, volatile and pro-cyclical: during contractions, foreign investors reduce their investments in domestic assets and domestic agents reduce their investments abroad. These swings are particularly acute during banking and debt crises, and affect all categories of capital movements: foreign direct investment, portfolio investment (both equity and debt instruments), and other investments (including cross-border bank loans).

2.2 Foreign direct investment

After having somewhat recovered in 2010 and 2011 from the post-financial crisis decline in 2009, global FDI inflows fell by 11.8 % in the period 2011-12 (from EUR 1.19 trillion to EUR 1.05 trillion). In addition, preliminary data show that global FDI flows for the first half of 2013 were down 16 % compared with the first half of 2012.[8]

The decline in FDI in the EU accounted for 86 % of the global decrease in 2012. Accordingly, the EU share of global FDI inflows decreased to 19.1 % in 2012 (Figure 2). In 2012, for the first time, major emerging economies attracted a larger share of worldwide FDI than the EU.

In 2011,[9] the main source countries of FDI in the EU were the United States (62 % of total) and Switzerland (8 % of total). The weight of offshore financial centres (OFCs) is striking, as they represented 7 % of total EU inward FDI flows.

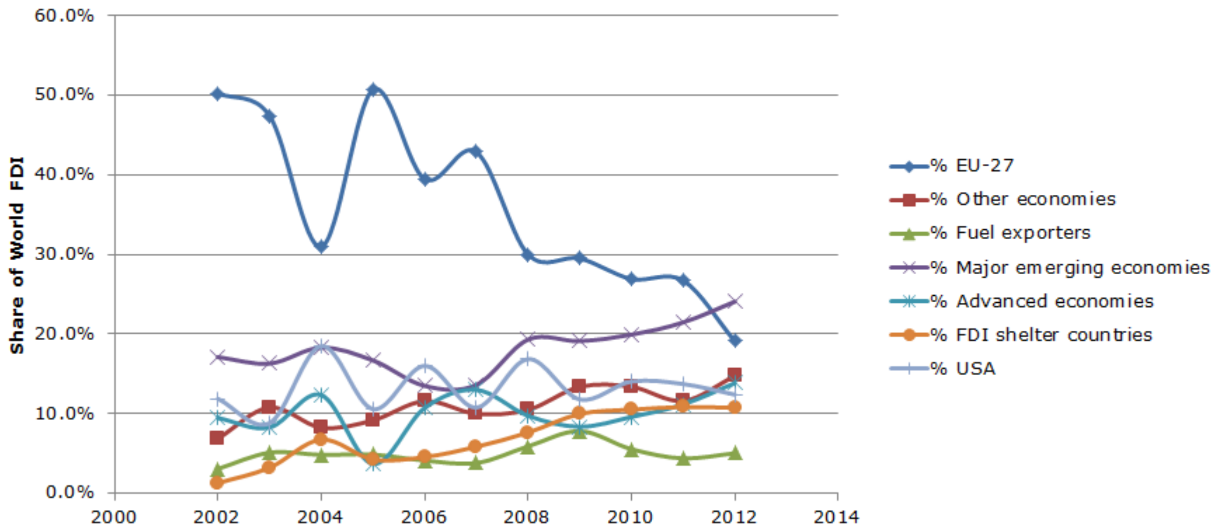
[6] Net capital flows are defined as the net difference in gross capital inflows and outflows, i.e. the net purchases of domestic assets by foreign agents minus the net purchases of foreign assets by domestic agents.

[7] Total capital flows of these Member States were above 20 % of GDP in 2012.

[8] OECD FDI Statistics, October 2013.

[9] Latest year for which data is available.

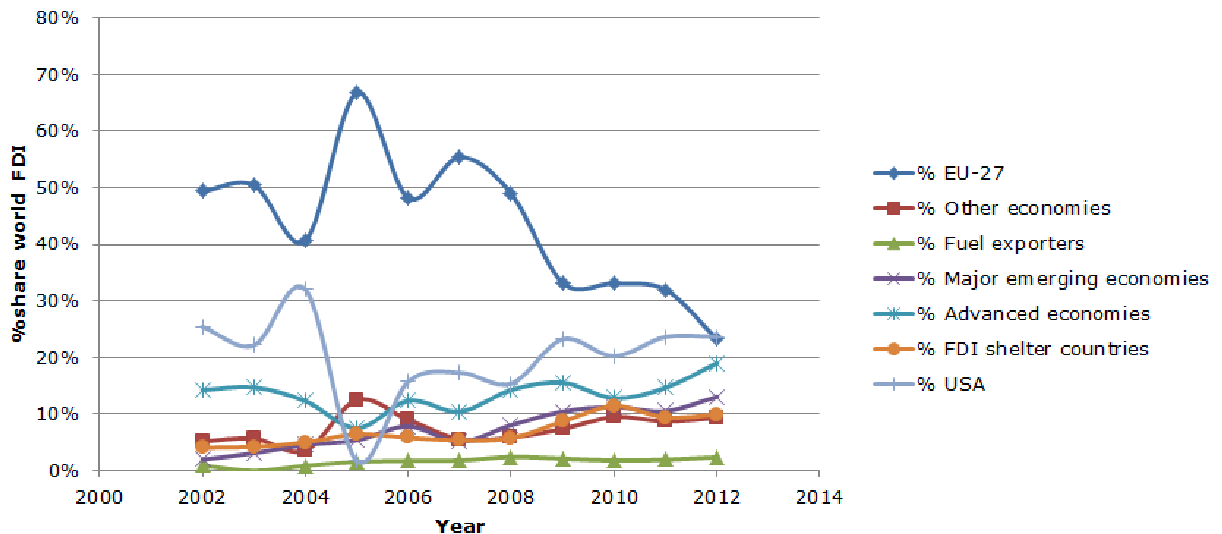
Figure 2: Trends in worldwide FDI inflow share, 2002-12



Source: Unctad FDI data.

The EU's contribution to worldwide outward FDI fell sharply to 23 % in 2012 (Figure 3). The United States was the main destination for EU FDI outflows (34 % of total), followed by Canada (8 % of total). Again, OFCs are a significant destination for EU FDI (11 % of total EU outflows).

Figure 3: Trends in world FDI outflow share, 2002-12

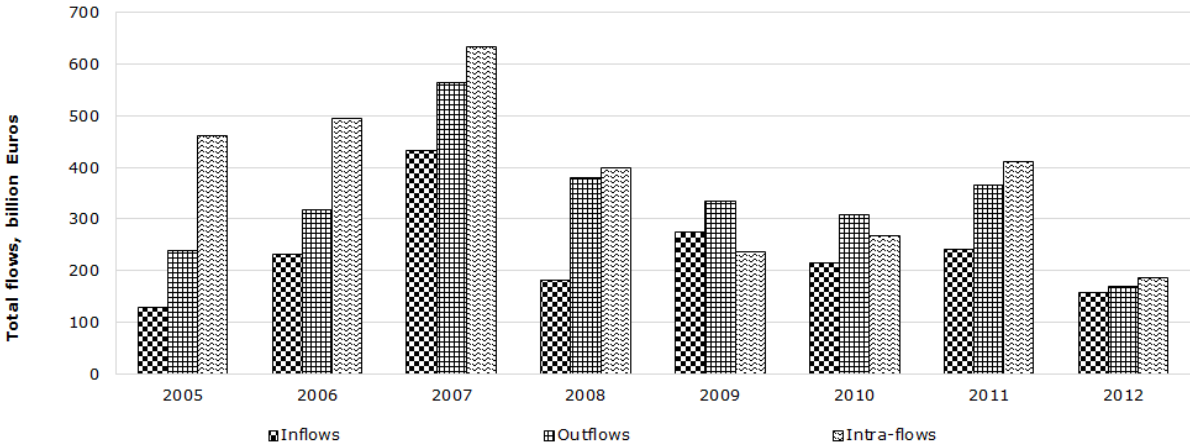


Source: Unctad FDI data.

A comparative analysis of intra-EU, extra-EU inward and extra-EU outward FDI data for 2012 (Figure 4) shows that intra-EU cross-border investment fell by 55 % from 2011. However, preliminary data show that intra-EU investment was up 34 % in the first half of 2013 compared with the first half of 2012. Inflows from outside the EU and outflows to non-EU countries declined by 44 % and 58 % from 2011, respectively. Based on preliminary data,

these negative trends continued in the second half of 2013 compared with the first half of 2012 (as extra-EU inflows and outflows declined by 79 % and 32 %, respectively).[10]

Figure 4: EU-27 FDI flows, 2005-12



Source: Eurostat balance of payments data.

Note: data for 2012 are preliminary. Intra-flows were computed as sums of inflows.

Business concerns about the economic and fiscal situation in the EU (and especially the euro area) were among the main causes of these sharp declines.[11] In addition, the establishment of cash-pooling facilities in the form of Special Purpose Entities (SPEs)[12] and the increasing and highly volatile transfers of funds executed by transnational corporations to manage their retained earnings contributed to the decrease.[13]

Within the EU, Luxembourg had the highest share of intra-EU cross-border direct investment in 2012 (28 % of the total), reflecting the weight of SPEs in Luxembourg's overall FDI (Figure 5). The United Kingdom had the second highest share of intra-EU direct investment (27 %), followed by France (12 %) and Ireland (11 %). With a 12 % share, Belgium accounted for the largest disinvestment in the EU, mainly because flows into and out of Belgium were characterised by high and volatile equity capital and intra-company loans.

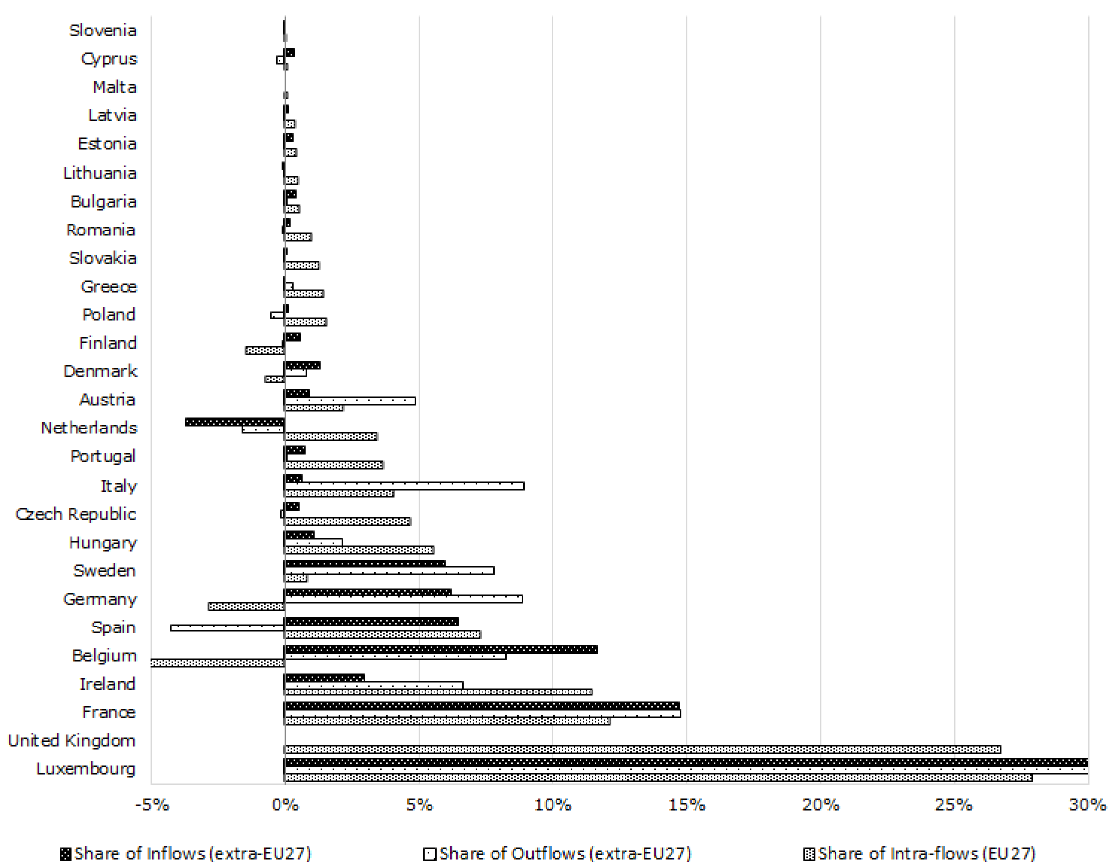
[10] For confidentiality reasons, preliminary 2013 data do not include Spain and the United Kingdom.

[11] Preliminary data for the first quarter of 2013 show hints of mild improvement, with both inflows and outflows bouncing back up to roughly EUR 35 billion.

[12] SPEs are legal entities that have little or no employment, or operations, or physical presence in their jurisdiction. They are often used as devices to raise capital or to hold assets and liabilities, and may be relatively cheap to create and to maintain. They may offer taxation, regulatory, and confidentiality benefits.

[13] Unctad World Investment Report 2013.

Figure 5: Member States' shares of EU flows, 2012



Source: Eurostat balance of payments data.

Note: data for 2012 are preliminary. Intra-flows were computed as sums of inflows.

The increase in mergers and acquisitions (M&A) seen in 2011 reversed sharply in 2012, and fell further in 2013. The decline in cross-border deals in the EU was partly compensated for by stronger reliance on domestic M&A. It appears that the previous years of financial instability and uncertain economic outlook led multinational companies to look for opportunities in their domestic markets, rather expanding abroad. Inward M&A from outside the EU also declined in 2012 (and into 2013).

2.3 Portfolio investment

Portfolio investment (i.e. investment in equity and debt instruments[14] not giving significant influence or control over the enterprise in question) was the only category of the financial account that saw positive growth in the period 2011-12. In 2012, worldwide gross portfolio inflows reached EUR 1 352 billion.

Total portfolio investment flows into the EU came to EUR 274 billion in 2012, while portfolio investment outflows from the EU amounted to EUR 451 billion, thus increasing by,

[14] Including sovereign debt.

respectively, 1 130 % and 75 % relative to 2011. Preliminary data show that EU portfolio inflows and outflows grew by 324 % and 154 %, respectively, in the first half of 2013 compared to the first half of 2012.[15]

Within the EU, the United Kingdom and, to a somewhat lesser extent, Germany, Greece and the Netherlands had large negative portfolio investment balances in 2012. In these countries (except Germany) the net outflow of capital was caused to some extent by foreign investors reducing their holdings of domestic securities.

Luxembourg had the largest positive portfolio investment balance among EU Member States, as foreign acquisitions of domestic assets were larger than Luxembourgish acquisitions of assets abroad. Belgium, France and Italy also had large positive portfolio investment balances, thanks to a decrease in their residents' holdings of foreign securities.

A comparison of the destinations of EU portfolio investment in the period 2001-08 with the destinations of EU portfolio investment in the period 2008-11 shows that the share of intra-EU portfolio investments increased before the crisis. This may have been a consequence of the increase in confidence and in the level of financial integration following the introduction of the euro. These factors may also explain why, before 2008, the share of most Member States' investment in German assets decreased, while it increased in Greece, Ireland and Spain.

However, between 2008 and 2011 the share of intra-EU portfolio investment increased by less than 1 %. In addition, there was an almost universal reallocation of portfolio investment to Luxembourg, while the share of investment into Germany either rose or fell by less. In parallel, investors moved away from many of the countries that were badly affected by the crisis.

2.4 Other investment (including cross-border bank lending)

The 'other investment' component of the balance of payments is a heterogeneous category including: loans and deposits, trade credits and changes in external assets and liabilities of the government sector, central banks and multilateral financial institutions. After excluding official financing flows, flows from and to the banking sector represent the larger share of 'other investment'.

At the global level, following an increase in 2010-11, gross 'other investment' inflows and outflows decreased significantly in 2011-12.

'Other investment' flows into the EU were EUR 22 billion in 2012, thus decreasing by 97 % relative to 2011, while outflows from the EU were EUR -41 billion,[16] marking a 104 % decrease in the period 2001-12. Relative to the first half of 2012, 'other investment' inflows

[15] Inflows and outflows include intra-EU investment.

[16] A negative outflow means that EU residents repatriated more capital that was previously invested abroad than they invested abroad in the current period.

and outflows shrank by 230 % and 104 %, respectively, in the first half of 2013, based on preliminary data.[17]

Among the Member States, Belgium, Germany and Luxembourg had very large negative net 'other investment' balances in 2012. In particular, in Germany and Luxembourg these were caused by large gross capital outflows. Comparing the EUR 177 billion gross outflows of 'other investment' from Germany with the TARGET2 balance of the Bundesbank (EUR 656 billion at the end of 2012), it is clear that the outflows were mainly driven by German claims on the Eurosystem. Data for Luxembourg shows that the large gross capital outflows were mainly driven by investments abroad of insurance companies, pension funds, and other non-depository financial intermediaries.

On the other hand, Greece, Spain, France, Portugal and the United Kingdom had large positive net balances. In the case of Greece, Spain and Portugal the large positive inflows reflected external financial assistance provided to the governments of these countries.

Focusing on cross-border bank lending, in 2012 the large negative net balances of Italy and Spain were caused mainly by a stop in lending by foreign banks to residents in those countries. On the other hand, France and the United Kingdom had surpluses in bank capital flows, which were largely driven by a retrenchment of domestic bank lending vis-à-vis foreign residents having exceeded reduction in foreign bank lending to residents.

A comparative analysis of the allocation of cross-border bank lending in the EU Single Market[18] in the pre-crisis and in the post-crisis periods shows large disinvestments from the Member States that were negatively affected by the crisis. Banking claims were generally transferred to Luxembourg.

3. DEVELOPMENTS IN THE SINGLE MARKET FOR CAPITAL

The free movement of capital is a fundamental Single Market freedom and contributes to making the EU an attractive place for investment. Article 63 TFEU prohibits all restrictions on all categories of capital movements, between Member States and between Member States and non-EU countries. Member States may make exceptions to this principle under specific conditions (Articles 64 and 65 TFEU). The EU also has exclusive competence for FDI under the common commercial policy (Article 207 TFEU).

Recent developments in this area have highlighted the importance of these principles and the continued need to strike a balance between the free flow of capital and the application of justified and proportionate restrictions.

[17] Inflows and outflows include intra-EU investment.

[18] The geographical distribution of cross-border lending can be analysed using data from the consolidated banking statistics of the Bank of International Settlements (BIS). The coverage is incomplete in Europe: reporting countries give figures for all countries worldwide on which they have claims, but not all countries report.

3.1 Financial stability

Capital controls

Following a serious banking crisis in March 2013, there was an imminent risk that mass capital flight from Cyprus would lead to the collapse of the banking system. This exceptional situation led national authorities to adopt emergency measures in the form of administrative capital controls. These controls limited both the outflow of deposits from the country and the flow of capital between banks in Cyprus. The aim was to ensure that deleveraging would take place in an orderly way and at a predictable pace, while safeguarding the weaker banks from collapse.

Under Article 65 TFEU, Member States may impose restrictions on capital movements, including capital controls, provided that they are justified by public policy or public security. They can furthermore impose such restrictions based on overriding reasons in the general interest such as safeguarding the stability of financial markets and of the banking system. Any such restrictions must be suitable and proportionate (including as to their duration). In this light, the Commission concluded that Cypriot capital controls were justified and complied with the conditions of the EU Treaty.

Since then, the Commission has closely monitored the capital controls to ensure that they last no longer than necessary and are gradually relaxed, while financial stability is being restored in Cyprus. To this end, the Cypriot authorities adopted a roadmap and capital controls are gradually being relaxed. Restrictions on domestic transactions have become less tight, except for the opening of new accounts and the free disposal of term deposits at maturity. Branches and subsidiaries of foreign banks in Cyprus are allowed to apply for an exemption from the measures for their international clients.

While the pace of outflows was initially faster than originally envisaged in the Memorandum of Understanding,[19] a daily analysis has shown that the pace has slowed substantially since the Bank of Cyprus's exit from the resolution process and the banks have started slowly experiencing some inflows.

Bank lending and other cross-border banking activities

Unilateral prudential measures taken by national bank supervisors and addressed to the banking subsidiaries of cross-border EU banking groups could have the effect of 'ring-fencing' assets, thus restricting cross-border transfers of bank capital and leading to financial fragmentation in the Single Market.

According to EU banking legislation,[20] national supervisors are allowed to impose limitations on banks' activities in order to address financial stability concerns. However, such powers should be exercised in a non-discriminatory and proportionate way and respect strict consultation and cooperation requirements with other national banking supervisors in other Member States. Such restrictive prudential measures must also be compatible with freedom of

[19] Signed on 26 April 2013 by the Cypriot authorities and the Commission acting on behalf of the European Stability Mechanism.

[20] Regulation (EU) No 575/2013 and Directive 2013/36/EU.

capital movement and freedom of establishment and must be justifiable on grounds of overriding public interest.

In some cases, however, the justification and proportionality of such restrictions could be questioned, in particular when the measures adopted are discriminatory; or not suitable to attain the declared objective; or the national authorities have acted beyond their competencies as set out in the EU banking legislation; or the national authorities have acted in violation of the procedural requirements and limits imposed on them, under EU law and national laws.

Therefore, the Commission services have been monitoring the measures taken by national bank supervisors. In order to have a full and complete picture of the measures in question, they have requested all national banking supervisors to provide information about their supervisory practices. The Commission services are currently analysing the replies. In addition, the European Banking Authority (EBA)'s mediation mechanisms is an appropriate and suitable tool for resolving any disputes that may have arisen between home and host supervisory authorities, where the relevant banking legislation provides for this.

The EU financial reform agenda

The free movement of capital plays a crucial role in ensuring that capital is allocated in the most efficient and productive way in the Single Market. In addition, financial integration may contribute to a convergence of wholesale financing costs and retail interest rates. At the same time, financial markets efficiency and financial integration require sound regulatory, prudential and supervisory frameworks, capable of ensuring that capital flows do not jeopardise financial stability.

In the last year the EU has approved important measures in view of achieving these objectives. The CRD IV package applies from 1 January 2014 and transposes – via a Regulation and a Directive – the new global banking standards (commonly known as the Basel III agreement) into the EU legal framework. It notably sets stronger prudential requirements, obliging banks to increase the quantity and quality of their capital reserves and to better manage their liquidity risks.

Progress in the implementation of the Banking Union will be essential for achieving sustainable financial integration and stability within the euro area, whereby the benefits of cross-border capital flows are complemented by new supervisory and resolution authorities which will implement the new prudential framework in an effective and coherent way. Major progress was achieved recently, with the adoption in October 2013 of the legislation on the Single Supervisory Mechanism (SSM). Currently, negotiations are on-going on the Single Resolution Mechanism (SRM) proposed by the Commission in July 2013, which will ensure an efficient and effective resolution process.

Furthermore, in December 2013 a political agreement was reached on a Directive on deposit guarantee schemes (DGS) and on the Directive establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD). The Single Resolution Mechanism, once in place, should become the authority applying these new rules in the context of the Banking Union, supported by a Single Resolution Fund.

Finally, as part of the reforms to increase financial stability and ensure a smooth functioning of cross-border capital movements, in January 2014 the Commission proposed a Regulation on banking structural measures to increase the resilience of the largest EU banks.

3.2 Monitoring, enforcement and policy actions

The Commission services have continued to monitor issues related to the free movement of capital, with the aim of following market developments and of ensuring application of EU law. The number of formal infringement procedures is generally decreasing.[21] Resort to EU Pilot procedure in the pre-infringement phase within the Commission has contributed to this trend.

Special rights and screening mechanisms

Developments in relation to possible privatisation in Member States, especially as part of economic adjustment programmes[22] and in the economic sectors most concerned, have been followed closely. Privatisation needs to comply with EU rules, including rules on the free movement of capital.

Member States sometimes claim that some special rights or other means to retain some degree of public control of privatised companies are necessary to achieve certain public interest objectives. This may be the case in specific circumstances, especially in sectors of fundamental interest to society, albeit under strict conditions. Therefore, the challenge is to find the right balance between the aim of attracting investment in the Single Market and Member States' need to protect their legitimate general interest objectives.

In a recent preliminary ruling, the Court of Justice of the EU (CJEU) held that Member States' rules governing the system of property ownership are subject to the free movement of capital, and therefore a ban on privatisation restricts the free movement of capital. However, the reasons underlying the choice of rules of property ownership may justify the restriction. The CJEU also held that the objectives of combating cross-subsidisation in the broad sense in order to achieve transparency in the electricity and gas markets and to prevent distortions of competition may, as overriding reasons in the public interest, justify restrictions on the free movement of capital.[23]

The CJEU also delivered a judgment on the implementation of the 2007 judgment on investment restrictions in Volkswagen. The CJEU clarified that the scope of the 2007 judgment should be interpreted to mean that Germany failed to fulfil its obligations not simply by maintaining a lower blocking minority, but by combining this with provision for a voting cap.[24]

---

[21] Bringing the number of open cases to 11.

[22] Cyprus, Greece Ireland and Portugal.

[23] Judgment of 22 October 2013 in Joined Cases C-105/12, C-106/12 and C-107/12, Netherlands v Essent NV, Essent Nederland BV, Eneco Holding NV and Delta NV.

[24] Judgment of 22 October 2013 in case C‑95/12, Commission v Germany.

Screening mechanisms are another way to keep public control over the perceived risks of direct investment in strategic sectors. Some Member States have mechanisms to screen incoming investment on the basis of public security or public policy. The majority of these mechanisms cover investment from both within and outside the EU. Two Member States recently adopted or amended rules on screening investments.

Such screening mechanisms must comply with the Treaty. In a recent case, the CJEU outlawed two control mechanisms on investment in strategic companies:[25] it was considered inappropriate to require ex ante authorisation of investment exceeding a 20 % threshold based on criteria that were listed only indicatively and ex-post approval of important company decisions without any clear criteria for State intervention. The law in question applied to investment from both within and outside the EU.

Restrictions to investment in real estate

Member States are allowed to keep specific derogations from the free movement of capital rules for the acquisition of real estate, if these were provided for in the relevant Treaty of Accession. Concerning acquisitions of agricultural real estate, transitional periods applied for Bulgaria and Romania until 1 January 2014, for Hungary, Latvia, Lithuania and Slovakia until 1 May 2014, for Poland until 1 May 2016, and for Croatia until 1 July 2020. Croatia may also request a three-year extension.

With a view to the expiry of these transitional arrangements, the Commission services are following Member States' preparations to lift the restrictions. While Article 345 TFEU allows Member States to establish their own system of property ownership and to lay down measures specific to transactions relating to agricultural and forestry plots, these measures still have to guarantee the free movement of capital, the right of establishment and the free movement of persons.

As an exception to the general prohibition, the TFEU allows Member States to lay down rules which restrict the free movement of capital, subject to certain conditions. These restrictions may be permitted provided that they pursue an objective in the public interest, that they are applied in a non-discriminatory way and that they respect the principle of proportionality

Investment protection

Bilateral investment treaties between Member States (intra-EU BITs) were concluded at a time when at least one of the two parties was not yet member of the EU.[26] But once both parties are EU Member States, their relationship cannot be subject to international agreements that overlap or conflict with the EU Treaties. Therefore, in the view of the Commission and a number of Member States, intra-EU BITs are incompatible with EU law and should be terminated as soon as possible.

---

[25] Judgment of 8 November 2012 in case C-244/11, Commission v Greece.

[26] See Commission Staff Working Document on the free movement of capital in the EU, SWD(2013)146 final, 15 April 2013, p. 11.

Against this background and following discussions with Member States and industry, it appears that the exercise and the protection of investors' rights within the Single Market require particular attention, and further assessment.

The external dimension of the Single Market for capital

Since the EU was given exclusive competence for foreign direct investment under the common commercial policy in the Lisbon Treaty, it has sought to insert investment provisions in trade agreements. The objective is to cover investment liberalisation and investment protection in such agreements. Stand-alone investment negotiations are also being pursued.

Several negotiations on investment protection under free trade agreements are ongoing. For example, political agreement was reached in October 2013 on a free trade agreement with Canada. The EU and Japan launched negotiations on a free trade agreement in April 2013 and the first rounds of Transatlantic Trade and Investment Partnership (TTIP) talks took place from 8 to 12 July and from 11 to 15 November 2013.

4. CONCLUSION

The economic crisis continued to take its toll on global flows of financial resources in 2012. Although the fall in capital movements affected all major economies, the EU was hit particularly hard. These negative developments seem to have been reversed in the first months of 2013, but it is still too early to determine whether capital flows are now on a decisive upward path.

Weak economic performance in the EU and investors' concerns about the euro seem to be among the most prominent reasons for the decline in FDI in 2012. In addition, developments in cross-border portfolio investment and banking flows show that capital has continued to move from Member States that are considered 'riskier' to those deemed 'safer', thus reversing the pre-crisis trend.

The EU policy on free movement of capital has brought tangible benefits and safeguarded market openness to investment. Recent developments point to the need for continuous efforts to improve the attractiveness of the EU for investment, to ensure the financing of long-term investment in the EU economy, and to fight against financial fragmentation in the Single Market.

At the same time, the Single Market for capital is facing new challenges. The examples of capital controls in Cyprus, ring-fencing of banking assets and privatisation programmes illustrate the continuous need to strike a balance between staying open to foreign capital while safeguarding legitimate public policy objectives which are also important for attracting investment. Furthermore, the EU's extensive international agenda, including both investment liberalisation and protection, reinforces the importance of a well-functioning Single Market for capital.