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From a Capital Markets Union towards a robust Savings and Investments Union

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Sustaining the current progress towards a Capital Markets Union (CMU) requires both strong political commitment and high prioritisation. While integration is often cited as a key objective, the more fundamental issue for EU capital markets is their limited depth rather than integration alone. Unlike more market-based financial systems, the EU's financial system relies heavily on banks, where deposits are liquid and nominal in value. This creates a mismatch when it comes to financing long-term, illiquid investments typical of capital markets.

Within the EU, there is a significant and positive correlation between institutional savings and the robustness of capital markets in individual countries. For example, in the Netherlands, Sweden and Denmark, where institutional savings are high – especially in pension funds and life insurance companies – capital markets tend to be more advanced. This is partly due to the prevalence of pre-funded pension systems in contrast to the pay-as-you-go pension systems dominant in other EU nations. Importantly, pre-funded pensions not only bolster capital markets but also improve fiscal sustainability by reducing dependency on current revenues to fund retirement benefits.

Extending the depth of EU capital markets will require careful planning, in particular learning from the shortcomings of past initiatives, as highlighted in our recent report. Given the limited direct influence of the EU over national pension reforms, a thorough reassessment of the single rulebook is warranted. This includes considering whether a more principles-based approach could better accommodate the different market structures in Member States.

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Although CMU will soon be rebranded as a Savings and Investments Union (SIU), the core objective should remain the same: to strengthen EU capital markets to finance innovation, boost productivity and support growth. However, rebranding should not imply narrowing the objectives or shifting the goalposts – clarity will be crucial to avoid misinterpretation.

A central component of the SIU is the establishment of affordable long-term savings and investment products, as recommended in both the Letta and Noyer reports of 2024. While there have been several initiatives at the EU level aimed at creating such products, the results have been mixed. The success of UCITS (undertakings for collective investment in transferable securities) demonstrates the potential of a pan-European investment product, accepted within the EU and beyond. All the same, UCITS have often been leveraged more as a marketing tool than as an efficient savings vehicle, as proven by the limited size of funds. Meanwhile, the pan-European personal pension product has largely failed to gain traction, with only one approved product on the market 5 years after its inception. Furthermore, the limited uptake of the European long-term investment funds, with only about 114 products approved and EUR 11 billion in assets under management, underscores the challenges in generating strong retail interest.

Before embarking on further initiatives, a careful analysis of the EU's experience with these long-term savings products is essential. In light of the ongoing debate on a Retail Investment Strategy, which has seen the initial proposal watered down considerably in the EU Council and Parliament, it's vital to avoid over ambitious narratives that may not be achievable.

The EU's back-office infrastructure could certainly benefit from modernisation. Over the past 25 years, each Member State has maintained its own stock exchange and central securities depository, leading to higher transaction costs and fragmented liquidity. Enhancing competition and interoperability at this level, coupled with improved enforcement of existing rules (including by competition authorities), could make significant strides in harmonising market operations.

Advancing a savings union inevitably raises unresolved issues on the banking side. Previous eurozone crises have shown that the current approach, with a 'doom loop' between the sovereign and banking sectors, compounded by bailout tendencies, is not suitable. It has allowed inefficient banks to persist, depressing overall valuations in the sector. To move forward, the EU should adopt prompt corrective measures that proactively address failing banks, ensuring losses are borne by shareholders and creditors, in line with the Bank Recovery and Resolution Directive. Moreover, the EU's state aid guidelines for banking need a fresh evaluation to better address competitive disparities and reinforce market discipline.

For Europe to secure a sustainable, future-ready financial system, the creation of an SIU must be more than just an incremental change – it must be a transformational leap. This is a unique moment to shift the focus towards a financial ecosystem where capital markets thrive independently yet cohesively with a robust banking sector, supporting high-impact investments that drive growth and resilience.

To succeed, the EU must build a structure that balances harmonisation with flexibility, drawing on the lessons of past initiatives and reforming outdated regulatory constraints. A Savings and Investments Union must deliver more than integration; it must build depth, credibility, and trust in Europe's financial future. Anything less risks leaving Europe behind in the global race for innovation and sustainable economic leadership.

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