Completing the Savings and Investment Union

An Urgent Need to Unlock Europe's Untapped Capital

Completing the Savings and Investment Union - An Urgent Need to Unlock Europe's Untapped Capital

Europe is sitting on a hidden treasure: €33 trillion in private savings. Yet, instead of fuelling innovation, sustainable growth, and strategic investments, a third of these funds—over €10 trillion—languish in low-yield bank accounts. Meanwhile, billions flow out of the EU, with European investors seeking better returns abroad. The European Union's fragmented financial markets are stifling economic potential, leaving SMEs struggling for funding, and pushing Europe's brightest innovators to seek capital elsewhere. **The new European Commission's Savings and Investment Union (SIU) initiative must finally break the deadlock and turn Europe's wealth into its engine for growth.**

The SIU builds upon the Capital Markets Union (CMU) project, originally launched in 2014 under the Juncker Commission with the aim to channel private capital across borders, enhance economic stability and thereby drive economic growth. The vision was clear and simple but hugely ambitious and politically complex to execute: create a single market where financial securities are priced transparently, governed by the same rules, and supported by a consistent tax and insolvency framework. The goal was to mobilise abundant private capital and direct it to the most productive investments, reduce Europe's reliance on bank loans, and strengthen economic resilience. Yet, a decade later, Europe's capital markets remain fragmented, underdeveloped, and unable to compete globally. Progress has stalled.

A decade of stagnation

For many reasons – many political and protectionist – the EU has been unable to move the CMU project on. Europe's capital markets remain small compared to the United States: the EU's equity market, at a meagre 68% of GDP, pales behind the US's 170% and Japan's 120%; in addition, bond markets size, household participation, venture capital, and institutional investment all trail far behind the US. The Association for Financial Markets in Europe (AFME) has even warned that cross-border capital integration has regressed since 2019. While US firms use tradeable securities for two-thirds of their funding, only 30% of EU companies do so, preferring bank loans and unlisted equity. The leaves European businesses—especially start-ups—at a disadvantage, as they struggle to scale without adequate funding options.

Europe's bank-heavy model can also be seen as a structural weakness. During and after economic downturns, banks tend to tighten credit for a prolonged period, leaving businesses vulnerable. With banking assets in the EU standing at 300% of GDP—compared to just 85% in the US—Europe's economy remains excessively reliant on traditional finance, which is prone to crisis-induced contractions. The Letta Report confirms that Europe's market-based funding gap continues to widen, exacerbating the continent's economic fragility.

In an era of growing geopolitical uncertainty, sluggish growth, and escalating investment needs, finding ways to mobilise EU capital is a must for the new EU Commission. With EU Treaties capping public risk-sharing through a common budget and common borrowing, private capital continues to be the first best option to ensure a boost to investments in the EU. Without a well-functioning capital market, European businesses will struggle to innovate, and the continent risks falling behind in global competitiveness.

Fragmentation in capital markets across the EU worsens the problem further. Currently, financial markets in countries like France, the Netherlands, and Sweden have equity and debt securities exceeding 200% of GDP, while in Poland, Czechia, and much of Eastern Europe, this figure is just below 100%. This disparity shrinks liquidity, hampers market depth, and leaves smaller firms and some regions stranded. The Letta Report underscores the mismatch: the EU's share of global equity issuance, market capitalisation, and corporate bonds lag far behind its economic weight.

The US comparison: What Europe is missing

The gap between European and US capital markets is starker than we think. Europeans hold an average of 40% of their savings in low-return bank deposits—four times the US rate (IMF, 2019) —reflecting a cultural risk aversion that chokes capital market participation (IMF, 2019), and poor access to functioning retail markets. Meanwhile, only 20% of euro area households invest their savings in stocks or funds—compared to over 50% in the US—and only around 30% opt for voluntary pensions or insurance. Institutional investors, like pension funds and insurers, also play a limited role in Europe, managing just €10.7 trillion in assets compared to €38.1 trillion in the US.

For firms, the disparity is equally significant. US corporations rely heavily on equity and debt securities, which dominate their funding mix, while EU firms rely on bank loans and unlisted equity. This limits the ability of European start-ups to secure venture capital, forcing many, in particular in the tech sector, to seek funding overseas. Moreover, the EU's fragmented stock exchanges further hinder capital formation, as liquidity is spread thin across multiple small platforms instead of consolidated into deep, efficient markets. Large cross border financial services firms have long argued for market integration. Smaller, more domestic incumbents largely focus on the likely competition they will face, as venues centralise, and greater efficiency drives lower costs (and profits).

Barriers to breakthrough and the path ahead

A 2019 IMF survey identified some of the main barriers to EU capital market integration: inconsistent regulation, lack of transparency, and misaligned tax and insolvency regimes. Since then, progress has been slow. Despite over 55 regulatory proposals and 50 non-legislative initiatives under the CMU, real advancements have been limited. Importantly, national interests continue to obstruct efforts, as protectionist Member States and local incumbents, fear losing control over their domestic financial sector. Despite possible fixes like standardised reporting and supervisory convergence, and attempts at harmonising insolvency laws—most of which have stalled—in practice, transparency remains murky, tax withholding opportunities continue to confound investors, and insolvency rules vary wildly, deterring cross-border investment.

To drive real change and unlock this decade-old stalemate, the President of the European Central Bank (ECB) called in 2024 for a "Kantian shift" in thinking—urging policymakers to prioritise a genuinely integrated capital market over national concerns. As such, the SIU must not be another bureaucratic exercise; it should serve as a strategic tool to unleash Europe's economic potential. And this requires bold action: harmonised supervision, common insolvency and tax rules, consolidated market infrastructure, and greater participation from institutional investors and citizens alike, as highlighted also by the Eurogroup Communique in 2024, and the Letta Report.

The Savings and Investment Union should be seen as a conduit not only to fix market rules, simplify and harmonise them—but also to unlock untapped capital and generate wealth. By proposing to turn €10 trillion in idle savings into stock market fuel, the SIU can help boost internal demand and household prosperity, and serve as the bridge from high-savings to high-growth and investment for Europe.

What comes next?

On 19 March, European Commissioner for Financial Services and the SIU, Maria Luís Albuquerque, will present the Commission's proposals to accelerate capital market integration. The Commission is expected to present concrete ideas to drive the consolidation of capital markets across the EU through significantly **more integrated supervision** and the **removal of barriers** to **market-driven infrastructure consolidation.** This encompasses stock markets, exchanges, and funds, ultimately leading to a reduction in the number of stock exchanges in Europe. Additionally, the Commission plans to introduce a **single, low-cost EU-wide savings and investment** product, set to be unveiled in Q2 2025, alongside essential regulatory improvements to enhance the ability of pension and investment funds to invest within Europe. The proposal will also aim to **address the limited risk appetite of European savers and the associated low returns on their savings** with a strategy on improving financial literacy and a stronger investment culture. Harmonising insolvency regulation and other financial sector laws to better integrate capital markets across the EU should also be included in the package.

All in all, a thriving capital market isn't a technocratic sideshow—it's the key to a stronger European economy. It could empower SMEs, bridge regional divides, and fund the innovations that secure a sustainable future. A decade in, the vision remains compelling but still lacks milestone achievements. The EU and its Member States must move beyond half-measures and seize this chance to make meaningful progress on the Savings and Investment Union, as Europe's financial future depends on this. Many leaders applaud the ambition. They now need to get behind the execution. Time is running out.

Atanas Pekanov is an economist at the Austrian Institute of Economic Research (WIFO) in Vienna with a focus on monetary and fiscal policy and EMU architecture. In 2021 and again throughout 2022-2023 he served as the Deputy Prime Minister of the Republic of Bulgaria.

He was in charge of the management of EU Funding (MFF), the Bulgarian National Recovery and Resilience Plan (RRP), Cohesion and Regional Funding and the co-coordination of the euro adoption process.

His focus was on negotiating and then implementing the Bulgarian RRP and its investments and reforms related to the energy, transport and other sectors.

He is currently also a Lecturer in Economic Policy at the Vienna University of Economics and Business (Wirtschaftsuniversität Vienna), where he obtained his PhD.

His research interests revolve around monetary and fiscal policy, the EU Budget (MFF), the EMU architecture, the Capital Markets Union.

Previously he has been awarded a Fulbright Scholarship and visited the Harvard Economics Department, was a scholar to the Bulgarian National Bank twice and has worked at the European Central Bank.

Interested in the Savings and Investment Union?
Arrange a discussion with our expert Senior Adviser.

Atanas Pekanov
atanas.pekanov@rudpedersen.com