

REBRANDING THE CAPITAL MARKETS UNION – TOWARDS AN INTEGRATED FINANCIAL ECOSYSTEM

Summary

This paper examines the current state and future prospects of the EU's Capital Markets Union within the context of ongoing economic challenges, including climate change, technological transformation, and geopolitical shifts. Despite significant regulatory reforms aimed at enhancing financial stability and promoting innovation, EU capital markets remain fragmented and comparatively underdeveloped relative to its global peers, particularly the United States. The paper highlights the necessity of mobilising approximately €10 trillion in retail savings currently held in low-yield bank deposits to foster economic growth, especially for SMEs and innovative start-ups. It emphasises the importance of establishing a Savings and Investments Union, promoting cross-border investment, and improving financial literacy among EU citizens. The Competitiveness Compass initiative has been introduced as a strategic framework to integrate capital markets, reduce reliance on bank financing, and facilitate private investment in strategic sectors. Ultimately, the success of these ambitious initiatives depends on the political will of Member States and the harmonisation of regulatory frameworks to foster a more risk-tolerant investment culture.

Keywords: Capital Markets Union, Financial Integration, Competitiveness Compass, Regulatory Framework, European Economic Policy.

* Ph.D., Jean Monnet Professor of EU Financial Markets and Regulation, Faculty of Law, University of Zagreb.

E-mail: ivana.bajakic@pravo.hr

ORCID: <https://orcid.org/0000-0002-4109-0597>

REBRENDIRANJE UNIJE TRŽIŠTA KAPITALA – KA INTEGRISANOM FINANSIJSKOM EKOSISTEMU

Sažetak

U ovom radu analizirana je trenutna situacija i buduće perspektive Unije tržišta kapitala EU u širem kontekstu novih ekonomskih izazova, uključujući klimatske promene, tehnološke transformacije i geopolitička pomeranja. Uprkos značajnim regulatornim reformama za jačanje finansijske stabilnosti i podsticanje inovacija, tržišta kapitala u EU i dalje su previše fragmentisana i nedovoljno razvijena u poređenju sa globalnim partnerima EU i posebno Sjedinjenim Američkim Državama. U radu je naglašena hitna potreba da se mobilise oko 10 triliona evra štednih uloga građana koji su trenutno u niskoprinosnim depozitima u bankama s ciljem da se podstakne ekonomski rast i to posebno rast MSP i inovativnih startup kompanija. Istaknut je i ključni značaj uspostavljanja Unije štednje i ulaganja, promovisanja prekograničnih ulaganja i poboljšanja finansijske pismenosti građana EU. Inicijativa Kompas konkurentnosti predstavljena je kao strateški okvir za integraciju tržišta kapitala, smanjenje zavisnosti od finansiranja od strane banaka i promovisanje privatnih ulaganja u strateške sektore. Na kraju krajeva, uspeh ovih ambicioznih inicijativa zavisice od političke volje država članica i harmonizacije regulatornih okvira s ciljem stvaranja kulture ulaganja koja će biti više tolerantna prema riziku.

Ključne reči: Unija tržišta kapitala, finansijska integracija, Kompas konkurentnosti, regulatorni okvir, evropska ekonomska politika.

1. Introduction

Efficient capital markets are essential for economic vitality and possess transformative potential for both the market and society. By facilitating the mobilisation of household and institutional savings into a diverse range of enterprises and productive activities, capital markets support long-term growth and resilience, reducing reliance on debt financing and spreading risk across a broad investor base. The efficient allocation of capital enhances investments in innovation, increasing employment and raising productivity over time. Beyond economic efficiency, well-functioning capital markets contribute to social welfare by supporting pension funds and retirement security, therefore promoting inclusive growth.

All of the above aligns with the EU's orientation toward an open and social market economy, particularly by liberating capital and navigating investments towards areas the EU has identified as strategic: the green and digital transitions, and defence (European Commission, 2025, p. 1-3). The EU has a long-standing policy ambition to achieve more integrated financial markets. Developing integrated capital markets alongside a dominant banking system broadens sources of funding and achieves scale, thereby providing business, particularly SMEs and start-ups, with better access to financing, which is essential for growth and innovation. Integrated and deeper EU capital markets constitute crucial infrastructure for attaining an investment environment that enables firms to innovate, grow and compete internationally, while offering retail and other investors broader and diversified investment opportunities with the potential for higher returns.

Although the EU has introduced numerous policy and regulatory measures over the past three decades to enhance and integrate its Member States' capital markets, the reality is that they remain fragmented, complex, and underdeveloped, particularly when benchmarked against other global peers in terms of size, depth, scale, and liquidity. European financial markets remain predominantly bank-based, a model that is well suited to well-established firms, yet simultaneously a structural vulnerability, as it constrains the catalysis of innovation, while alternative financing options remain less developed and less accessible. Such a regime is not suitable for innovative start-ups, fast-growing companies, and SMEs, which require investment capital to scale up, i.e., there is a need for appropriate financial infrastructure, including well-developed venture capital and private equity systems to support expansion at critical stages of firms' growth and lifecycle (European Commission, 2025a; 2025b; ESMA 2025; 2025a; IMF 2023).

ESMA's Position Paper on European capital markets warns that, by the end of 2023, the EU27 accounted for only 11% of global equity market capitalisation, in stark contrast to 45% in the United States – a share that has declined over the previous fifteen years for the EU while increasing for the U.S. Similar patterns are evident in public listings, where EU IPOs by value comprised 15% of global activity between 2015 and 2020, less than half the U.S. share of 32%. The EU's capital market landscape remains both fragmented and complex: 27 distinct Central Securities Depositories (CSDs) and 14 Central Counterparties (CCPs) are authorised within the Union, compared with a single CSD and eight CCPs in the United States. Although national stock exchanges have been consolidated under EU-wide groups, there has been no effective unification of cross-border order books, resulting in persistent liquidity fragmentation and higher transaction costs (ESMA, 2024, p. 4; IMF, 2023).

The asset management sector exhibits a similar fragmentation: as of the third quarter of 2023, there were 31,004 authorised UCITS funds in the EU, compared with 11,996 mutual funds and exchange-traded funds (ETFs) in the United States

– a disparity that constrains scalability, given that the average U.S. mutual fund held approximately €2.7 billion in net assets in 2021, versus approximately €400 million for an average UCITS fund. Household financial asset allocations further illustrate this divergence: between 2015 and 2021, EU27 households held on average 32% of their financial assets in currency and deposits, compared with 13% in the U.S. According to IMF data, Euro area non-financial firms relied on market financing for only 30% of their funding in 2017, versus nearly 70% for U.S. firms, and IPO volumes in the EU have generally remained flat over the past fifteen years, reaching their lowest level since 2009 in 2023; concurrently, the number of delistings from EU markets has risen. As an illustration of sectoral shifts, EU-focused equity exposure within UCITS declined from 51% of total UCITS equity assets in 2015 to 35% in 2022, while the share of U.S. equities increased from 27% to 42%, highlighting the concentration of capital in a global market where capital tends to flow toward locations offering the most efficient returns for investors (ESMA 2024, p. 4-10; IMF 2023).

ESMA also cautions against inconsistent rule application, gold-plating, insufficient harmonisation in key areas, and divergent national supervisory practices (ESMA, 2025; Arnold, 2025). For example, since its establishment in 2011, ESMA's remit has expanded from six to thirty legal acts. While rapid rulemaking initially addressed pre-crisis vulnerabilities and evolving market conditions, ESMA has now taken the position of reassessing the regulatory landscape, focusing on the overall regulatory burden and its simplification (ESMA, 2024, p. 10).

The aim of this paper is to critically assess the current state of European capital markets and to propose actionable strategies for enhancing their integration and efficiency. By examining the systemic challenges that hinder investment and innovation, the paper seeks to contribute to the discourse surrounding the EU's economic resilience and competitiveness. The methodology employed includes a comprehensive literature review of relevant reports, regulatory reforms, and strategic initiatives, alongside an analysis of empirical data reflecting the disparities between the EU and its global counterparts.

The paper is organised into several key sections that systematically address the multifaceted issues surrounding European capital markets. Following the introduction, the paper provides a detailed literature review on transformative regulatory reforms and their implications for financial stability and innovation. Subsequent sections examine recent action plans and reports that exemplify the EU's strategic objectives, including the Competitiveness Compass and the Savings and Investments Union. The analysis culminates in a critical examination of the challenges and opportunities essential for rebranding the Capital Markets Union, ultimately offering concluding remarks that emphasise the necessity for cohesive action among EU Member States to achieve a more integrated capital market framework.

2. Transformative Reforms in EU Financial Regulation and Supervision: A Literature Review

Financial regulation has been a long-term, evolving process shaped around two critical targets: enhancing financial stability and boosting financial innovation (Armour *et al.*, 2016; Moloney, 2010, pp. 437-461). Depending on the business cycle, endorsing stability and innovation can go hand in hand, but it may also represent an oxymoron, i.e., a dichotomy in the political discourse during periods of financial instability and crisis. In the first quarter of the 21st century, the EU financial regulation and supervision has undergone three transformative reform waves.

The first EU financial market reform wave was centred around promoting competition and enhancing competitiveness through implementation of the Financial Services Action Plan between 1999 and 2005 (European Commission, 1999; Ferran, 2004; Moloney, 2008; Lannoo & Levin, 2004). Generally, EU financial integration policy distinguishes four types of activities supporting financial integration: first, regulatory processes; second, enabling collective actions; third, raising awareness of the importance of European financial integration; and fourth, through its institutions (e.g., the ECB), which also actively promote financial integration (European Central Bank, 2009, p. 69). Nevertheless, as Ferran points out, “*regulation, in its narrow rule-making sense, is a favoured EU policy tool*” (Ferran, 2004, p. 9). Although initiatives aimed at economic, monetary, and capital markets integration date back to the late 1960s (e.g., Segré Report, 1966; Werner Report, 1970; Delors Report, 1989), it was not until the late 1990s that momentum for policy change accelerated significantly. At that point, the regulatory shift intersected the Lisbon Strategy, the Economic and Monetary Union (EMU), and the introduction of the single currency through the implementation of the Financial Services Action Plan, supported by a new legislative methodology – the Lamfalussy process – which fast-forwarded EU regulatory harmonisation through comitology procedures and multilevel network arrangements (Posner, 2012, pp. 43-60).

The second EU financial regulatory and supervisory reform wave places financial stability at its core. The global financial crisis of 2007-08 was a harsh reminder that financial globalisation combined with deregulation is a double-edged sword: interconnectedness among financial institutions transmitted risks across borders, producing detrimental spill-over effects for the economy. According to Reinhart and Rogoff (2009, p. 466), severe financial crises typically exhibit three main features: asset markets collapse deeply and persistently (housing prices decline by an average of 35% over six years, equity prices fall by an average of 55% over three and a half years); banking crises trigger substantial declines in output and employment (unemployment increases on average by 7% over four years, while

output falls on average by 9%); and real government debt tends to explode, with an average increase of 86%.

Although most EU Member States' financial institutions were not infected by the U.S. toxic assets plague, the global interbank credit crisis triggered a rapid shift toward risk-averse behaviour among investors and forecasted a sharp economic downturn, which temporarily revealed a sovereign-bank nexus in selected EU Member States, namely Portugal, Italy, Ireland, Greece, and Spain. The financial instabilities of the derogatorily labelled "PIIGS" countries, which had accumulated during the economic upturn of the early 2000s amid favourable borrowing conditions associated with euro-area membership, culminated in the full-scale European debt crisis of 2010-11. The crisis led to a prolonged economic recovery for euro-area countries, manifesting in slower GDP growth due to high unemployment and elevated debt levels. The fragilities of the European financial system reflected in the profound interdependence of European financial institutions, which boomeranged from EU "debtor" back to EU "creditor" Member States (Howarth & Quaglia, 2016, pp. 22-23, 46). Moreover, it emphasised the vulnerabilities of the Eurozone, i.e., the long-term destabilising political compromise of "asymmetric EMU," as Lamfalussy described the functioning of the EMU as a combination of monetary competencies transferred without adequate economic policies coordination (Lastra & Louis, 2013, p. 4).

In order to preserve both financial and political stability at the European level, the EU opted for bail-out programmes for the troubled Member States. Operationally, the financial reforms generated far-reaching institutional transformations of the regulatory and supervisory framework, focusing primarily on financial stability, i.e., consumer protection and the transfer of risk sharing/bail-outs from taxpayers to the private sector. The comprehensive reform package, known as the European Banking Union (EBU), centralised regulatory, supervisory, and resolution mechanisms at the EU level, inaugurating three new European supervisory authorities and granting additional powers to the European Central Bank, legally established under the newly adopted Single Rulebook (Chiti & Santoro, 2019; Allen, Carletti & Gulati, 2018). Additionally, the European Stability Mechanism (ESM), with a lending capacity of €500 billion, serves as a backstop in the event of financial crises for any euro-area Member State (European Stability Mechanism, 2025; Aerts & Bizarro, 2020). However, the crucial pillar of the EBU – the European Deposit Insurance Scheme (EDIS) – remains incomplete after a decade of political disagreement among wealthier Member States regarding risk-sharing (Veron, 2024, pp. 52-56; Brescia Morra, 2019, pp. 398-401).

The third – and to some extent parallel – regulatory wave focused on promoting innovation. This approach, referred to as regulatory innovation, was centred on developing a flexible regulatory infrastructure to support technological

innovations in financial services, specifically Fintech (Financial Stability Board, 2019, p. 2). Fintech encompasses immense disruptive potential, leveraging new technologies such as artificial intelligence and blockchain to create novel platforms and connect more efficiently the supply and demand sides of the financial spectrum (McKinsey & Company, 2018; World Economic Forum & Deloitte, 2017).

The regulatory challenge spans both new market participants and incumbent industries, with the objective of promoting competition while protecting consumers and safeguarding a level playing field amid new and disruptive business realities, often raising the question of what type of regulation is fit for purpose (Omarova, 2020, pp. 75-124; Amstad, 2019, pp. 1-21; Ehrentraud, Ocampo, Vega, 2020; Restoy, 2021). The United Kingdom has been a global pioneer in financial regulatory innovation. Since 2014, the British Financial Conduct Authority (FCA) has introduced innovation facilitators as novel governance models to promote a more flexible and business friendly regulatory approach to technological innovations in financial services. Two such models include innovation hubs, which serve as a one-stop shop for timely information exchange between regulators and innovative firms, and regulatory sandboxes, a more complex testing model for promising financial products and services (Cambridge Centre for Alternative Finance, 2018). The EU has implemented a series of policies and strategies to promote digital finance transformation, with the regulatory agenda focused on establishing a harmonised set of rules that provide legal certainty for investors, while ensuring consumer protection across the financial ecosystem, including the Fintech Action Plan, the Digital Finance Strategy, and the European Blockchain Regulatory Sandbox for Distributed Ledger Technologies, among others (European Commission, 2023; 2020; 2018).

3. Reports and Action Plans

The second quarter of the 21st century introduced new challenges: climate change, rapid technological shifts, and evolving geopolitical dynamics. A series of reports and action plans followed. In September 2023, European Commission President von der Leyen announced in her State of the European Union speech that she had requested former Italian Prime Minister and former President of the ECB, Mario Draghi, to draft a report on the future of European competitiveness (European Commission, 2023a, p. 8).

On 20 February 2024, 73 business leaders from 17 sectors submitted the Antwerp Declaration for a European Industrial Deal to Commission President Ursula von der Leyen and Belgian Prime Minister Alexander De Croo. As of now, more than 1,300 organisations across 25 sectors have expressed their support for this

initiative (European Chemical Industry Council, 2025). The Antwerp Declaration advocates for a comprehensive European Industrial Deal aimed at enhancing the competitiveness of European industry while supporting the transition towards climate neutrality by 2050. It calls for targeted governmental action to create a conducive regulatory environment, ensure energy affordability, and strengthen investment in clean technologies, thereby supporting the retention and creation of quality jobs within Europe (European Chemical Industry Council, 2024).

Parallel to this, Enrico Letta (2024) led a large-scale study involving key private and public sector stakeholders at regional, national, and EU levels, together with relevant non-EU partners. Commissioned by the Belgian EU Presidency and supported by the highest-level EU political institutions, the project produced a report focused on upgrading the European Single Market for the new global demographic and economic landscape, with the aim of preserving European social inclusion while enhancing the EU's security. The report emphasises the integration of the financial, energy, and electronic communications sectors as horizontal enablers of the green and digital transitions, and warns that Europe must move beyond protected national champions and the privileged position of national-level policy.

In May 2024, ESMA published a Position Paper on building more effective and attractive capital markets in the EU. It presented 20 recommendations across three key areas: first, broadening investment opportunities for EU citizens; second, boosting the financing of European companies; and finally, modernising EU's regulatory framework, improving supervisory consistency, and enhancing global competitiveness (ESMA, 2024). The Position Paper outlines ESMA's ambition to assume direct supervision at the EU level of systemically important cross-border infrastructure players (ESMA, 2024, p. 17).

Both the ECB Governing Council and the Eurogroup endorsed plans for advancing the Capital Markets Union (CMU), signalling their political support by emphasising its importance for the resilience of the economic and monetary union, as well as for strengthening the European Banking Union (EBU) through mobilising private investment for the green and digital transitions, fostering innovative firms through better access to risk capital and enhanced risk-sharing, reinforcing the international role of the euro, and expanding cross-border funding; thereby boosting productivity and resilience in line with EU's doctrine of open strategic autonomy (European Central Bank, 2024; Council of the EU, 2024).

The Draghi Report (2024) identifies a critical need for Europe to enhance its competitiveness in response to various challenges, including slowing productivity growth, high energy costs, and geopolitical vulnerabilities. It emphasises three principal areas for action: first, closing the innovation gap with the United States and China by fostering breakthrough innovation and improving the commercialisation

pipeline; second, implementing a joint decarbonisation and competitiveness plan aimed at reducing energy prices while capturing industrial opportunities through clean technology; and third, increasing security by reducing dependencies and strengthening the EU's foreign economic policy. To achieve these objectives, Draghi recommends reforming the EU's approach to industrial policy, enhancing coordination among Member States, simplifying regulations, and mobilising substantial public and private investment, estimated at €750 to €800 billion annually, to support necessary technological and infrastructural transitions.

At the EU summit in November 2024, based on the Draghi Report and inclusive discussion, EU leaders adopted the Budapest Declaration, which sets out the New European Competitiveness Deal, particularly emphasising the need for innovation, investment, and strategic security. The Deal outlines a comprehensive strategy that encompasses the deepening of the Single Market, industrial renewal, and the mobilisation of public and private financing, while calling for urgent and collective efforts from EU institutions and Member States to achieve these ambitious objectives. At the summit, President von der Leyen also proposed a common 28th regulatory regime, a single rulebook for innovative start-ups in the EU, with the goal of reducing regulatory barriers to innovation (Council of the EU, 2024a). Finally, in January 2025, all of the above reports and activities set in motion the European Commission's major initiative – the EU Competitiveness Compass – establishing a strategic framework to enhance EU's economic competitiveness and innovation capacity (European Commission, 2025).

4. Capital Markets Union within the Competitiveness Compass Framework

The Competitiveness Compass strategic initiative reaffirmed the three core objectives outlined in the Draghi Report and identified five horizontal enablers for achieving those objectives, namely: (i) cutting red tape and enhancing speed and flexibility through regulatory simplification, (ii) unlocking the scale of the Single Market by removing barriers, (iii) financing growth through a Savings and Investments Union and a reoriented EU budget, (iv) promoting skills development and quality jobs while ensuring social fairness, and (v) strengthening EU-national policy coordination (European Commission, 2025, p. 3).

The Competitiveness Compass identifies several critical areas of development of capital markets within the European Union. A central objective is the establishment of a Savings and Investments Union, designated to mobilise private investment and channel household savings efficiently into productive economic sectors. Eurostat estimates that approximately €10 trillion of EU retail savings are

currently held in banks as low-yield deposits (European Commission, 2025c, p. 2). This is partly due to the fragmented nature of the European retail investment system, which is often perceived as overly complex, opaque, and costly for the average citizen. The monitoring of financial literacy in the EU shows that only 18% of EU citizens are highly financially literate, 64% moderately literate, and 18% exhibit low financial literacy, with considerable variations across Member States (Eurobarometer, 2023). Additionally, ECB analysis suggests that EU households could potentially redirect up to €8 trillion from deposits into long-term, market-based investments – equivalent to approximately €350 billion annually (European Central Bank, 2024a).

The Compass underscores the necessity of integrating and deepening capital markets to reduce reliance on traditional bank financing, thereby fostering a more robust environment for venture capital and equity investments. The strategic framework promotes low-cost saving and investment products at the EU level – such as the Savings and Investment Account (SIA) – while encouraging retail investors to engage with these opportunities. Furthermore, the initiative advocates for the reform and harmonisation of insolvency frameworks and the removal of barriers to cross-border investment, which are critical steps towards creating a more cohesive and responsive financial landscape (European Commission, 2025, pp. 20-22).

Furthermore, the Compass emphasises the importance of leveraging the European Investment Bank (EIB) Group and other financial institutions to bridge the existing investment gap, particularly in strategic sectors such as innovation, clean technologies, and digital infrastructure. By utilising de-risking financial instruments and budgetary guarantees, the EU seeks to mobilise private sector resources and facilitate higher-risk investments, thereby strengthening the overall resilience and dynamism of capital markets. The proposed Competitiveness Fund would also play a crucial role in addressing the fragmentation of funding across multiple programmes, ensuring a more integrated approach to financing that is consistent with the EU's broader competitiveness objectives. Collectively, these measures aim to create a more liquid, efficient, and innovation-driven capital market ecosystem, which is essential for sustaining long-term economic growth and stability (European Commission, 2025, pp. 23-24).

5. The Competitiveness of European Capital Markets: Rebranding the Capital Markets Union

The initial reality check for the ambitious action plans outlined above concerns the budget, i.e., the financing sources and mechanisms. According to ECB estimates, the investments required to support the green and digital transitions,

and defence, amount to an additional €5.4 trillion over the period 2025-2031, of which 25% needs to be funded through public sources (Bouabdallah *et al.*, 2024, p. 1). These figures underscore the necessity of achieving a careful balance between national and EU-level initiatives and coordinated policy actions, alongside fiscal rules that encourage investments while remaining mindful of high-debt Member States with substantial deficits (e.g., Greece, Portugal, Ireland, Cyprus).

Additionally, a substantial share will need to be provided by the private sector and households, making the Capital Markets Union a critical logistical platform for mobilising these resources. However, channelling savings into investments, i.e., facilitating retail investment, remains a highly challenging objective. Despite decades of EU policy aimed at integrating European capital markets, savings within Europe continue to be inadequately mobilised, accumulating in low-yielding deposits and, in part, being incentivised by comparatively generous national public pension systems (IMF, 2023).

Furthermore, when they exist, savings remain largely confined within national borders rather than flowing across Europe, and, ultimately, after allocation, funds often fail to reach innovative firms due to an underdeveloped venture capital ecosystem (European Central Bank, 2024a). Currently, the EU underinvests in venture capital, raising only 5% of global venture capital funds, compared with 52% in the United States, 40% in China, and 3% in the United Kingdom (European Investment Bank, 2024, p. 22). Achieving change is likely to be challenging, as the European investment risk appetite remains both culturally embedded and institutionally reinforced. Shifting this mindset – from risk-averse, domestically constrained funding to cross-border, equity-based funding – will require enhanced financial literacy, institutional reform, and credible pan-European success stories to offset a long-standing aversion to investment risk that cannot be reversed by policy statements alone.

Additionally, EU financial institutions play a comparatively modest role in supporting innovative firms. For instance, EU pension funds allocate merely 0.02% of their total assets to venture capital, compared to approximately 2% in the United States, while EU banks lend over €600 billion to real estate firms and less than €100 billion to technology companies – despite comparable contributions to value added from these sectors (European Central Bank, 2024a). The underlying constraint appears to be an underdeveloped securitisation market, with EU annual securitisation issuance amounting to 0.3% of GDP in 2022, far below the 4% observed in the United States (Tamma, 2025). In a way, limited securitisation activity hampers the mobilisation of long-term savings into innovative enterprises, reducing leverage for high-growth sectors and reinforcing sectoral funding imbalances across the EU. Moreover, a more developed securitisation and capital-market framework

could improve risk-sharing, diversify funding sources for technology-driven firms, and enhance cross-border investment flows within the European Union. However, the post-global financial crisis regulation, which has been shaped by the Eurozone sovereign-debt crisis and has maintained stringent regulatory and supervisory practices across the EU since 2009, continues to define the prevailing orientation of EU implementation policy, which remains primarily centred on stabilisation.

Furthermore, the ECB's president, Lagarde, warned, "In 2023 there were 295 trading venues in the EU, as well as 14 central counterparties (CCPs) and 32 central securities depositories (CSDs). In the United States, there are only two securities clearing houses and one CSD" (European Central Bank, 2024a, p. 3). Conversely, it should not be overlooked that the EU's regulatory framework – most notably the MiFID directive, enacted nearly two decades ago – introduced greater competition in the provision of services to investors, trading venues, and derivative clearing. This regulatory liberalisation has also contributed to fragmentation within the European capital market.

ESMA's public signalling of resistance from national authorities and their "gold-plated" rule-making practices underscores a significant obstacle to the Capital Markets Union. As Verena Ross notes, reducing reporting burdens is "difficult" precisely because regulators adhere to nationally bespoke regimes and are reluctant to fund a harmonised system, indicating that fiscal constraints and sovereignty concerns shape compliance incentives more than technocratic efficiency considerations. The ambition of a single access point and a unified data infrastructure depends on coherent, centrally funded participation from Member States. In the absence of such buy-in, ESMA's governance model remains dependent on 27 distinct authorities (Arnold, 2025). Consequently, ESMA's operational potential is constrained by political economy frictions at the national level, which may translate into slower adoption of cross-border financial innovations and a delayed implementation of an integrated European capital market.

The Financial Times has reported recurrent resistance among several Member States to a greater harmonisation of financial market regulation across various domains, such as the European common deposit scheme (Germany), central supervision at EU level (Ireland, Luxembourg, Cyprus), and harmonisation of insolvency law (Tamma, 2025a; Arnold, 2025). France, supported by Italy, Spain, Poland and Netherlands, has emerged as a strong proponent of a more comprehensive Capital Markets Union (Asagri & Müller, 2025; Asgari, 2024). In April 2024, this initiative faced opposition from smaller Member States, which expressed concern, among other issues, about the potential erosion of national corporate tax regimes that underpin their competitive positions. "Austria, Bulgaria, Cyprus, the Czech Republic, Ireland, Croatia, the Baltic countries, Malta, Romania, and Slovenia also joined the rebellion and argued that central supervision would create additional costs for

their national financial industry, giving larger markets a competitive advantage” (Tamma, Foy & Hancock, 2024, p. 3). However, by second half of 2025, as a result of extensive political persuasion, the policy agenda appears to have veered decisively in favour of a stronger CMU, reflecting a shift in political feasibility and strategic priorities within the EU’s financial-integration project (Chassany & Tamma, 2025).

The European Commission has undertaken a set of strategies and action plans, articulated under the Competitiveness Compass, aimed to accelerating the Capital Markets Union. By late 2025, the Commission is expected to publish legislative proposals extending ESMA’s supervisory remit to encompass large trading infrastructures, cryptocurrency exchanges, and big cross-border asset managers. The guiding rationale has traditionally framed regulation as a corrective mechanism for excessive risk-taking; however, as observed by the Commissioner Albuquerque, the contemporary landscape exhibits the opposite challenge: risk-taking is not excessive but rather insufficient (Tamma, 2025a). This raises a central governance question concerning the optimal calibration of risk tolerance within the CMU framework. While technical solutions are well understood and political consent appears forthcoming, critical questions persist regarding whether such measures will be sufficient to shift Europe’s entrenched aversion to investment risk. In sum, the forthcoming proposals must be assessed not only for their legal and operational feasibility but also for their potential to realign normative attitudes toward risk within European capital markets, thereby facilitating a more robust and resilient Capital Markets Union.

6. Concluding Remarks

The European Union faces a critical juncture in its pursuit of a robust and integrated capital markets framework, a development essential for addressing contemporary economic challenges, including climate change, technological transformation, and geopolitical shifts. The Capital Markets Union represents a strategic effort to mobilise private investments and facilitate a more diverse range of funding sources, particularly for SMEs and innovative start-ups, which are vital for economic growth and resilience. Despite the EU’s ambitious regulatory reforms aimed at enhancing financial stability and fostering innovation, significant fragmentation and underdevelopment persist within its capital markets. The data presented in this paper highlights stark disparities between the EU and its global peers, particularly the United States, in terms of market capitalisation, public listings, and investment allocations. These findings underscore the urgency for the EU to reassess its financial landscape, and move beyond a predominantly bank-based system towards a more dynamic and integrated capital market structure.

The strategic imperative to mobilise approximately €10 trillion of retail savings currently stagnating in low-yield bank deposits underscores the necessity for a paradigm shift in the EU's financial architecture. The proposed Savings and Investments Union seeks to effectively channel these funds into productive economic sectors, thereby fostering an environment conducive to innovation and sustainable growth. However, the challenge lies in overcoming the entrenched barriers that have historically impeded the flow of capital across borders and into high-growth sectors, particularly venture capital. The current landscape, characterised by a fragmented investment system and a cultural aversion to risk, necessitates a concerted effort to enhance financial literacy among EU citizens and cultivate a more risk-tolerant investment mindset. Moreover, the reform of regulatory frameworks to promote low-cost saving and investment products, such as the Savings and Investment Account, is essential for encouraging retail investors' participation in capital markets. The emphasis on harmonising insolvency laws and dismantling barriers to cross-border investment is equally crucial for creating a seamless and integrated financial ecosystem. Such integration is imperative not only for amplifying market liquidity but also for enhancing the resilience of the EU's economy in the face of systemic shocks.

In conclusion, the rebranding and revitalisation of the Capital Markets Union (CMU), as outlined within the Competitiveness Compass, mark a strategic shift towards enhancing the EU's economic competitiveness and fostering innovation. While the proposed strategies are ambitious, their success will ultimately depend on the political will of Member States, the harmonisation of regulatory frameworks, and the cultivation of a balanced investment risk culture. As the EU navigates these complex challenges, the commitment to a cohesive and integrated capital market will be instrumental in unlocking the full potential of the European economy on the global stage.

References

- Aerts, J. & Bizarro, P. 2020. The reform of the European Stability Mechanism. *Capital Markets Law Journal*, 15(2), Oxford: Oxford University Press, pp. 159-174. <https://doi.org/10.1093/cmlj/kmaa001>
- Allen, F., Carletti, E. & Gulati, M. 2018. Institutions and the Crisis. In: European University Institute, Robert Schuman Centre for Advanced Studies. Available at: https://cadmus.eui.eu/bitstream/handle/1814/58084/Institutions-and-the-Crisis_2018.pdf?sequence=1&isAllowed=y, 1. 12. 2025.
- Amstad, M. 2019. Regulating Fintech: Objectives, Principles, and Practices, [eBook], pp. 1-21. Available at: <https://ssrn.com/abstract=3491982>, 1. 12. 2025. <https://doi.org/10.2139/ssrn.3491982>

- Armour, J., Awrey, D., Davies, P., Enriques, L., Gordon, J. N., Mayer, C. & Payne, J. 2016. *Principles of Financial Regulation*. Oxford: Oxford University Press. <https://doi.org/10.1093/acprof:oso/9780198786474.001.0001>
- Brescia Morra, C. 2019. The Third Pillar and the Banking Union and its Troubled Implementation. In: Chiti, M. & Santoro, V. (eds.), *The Palgrave Handbook of European Banking Union Law*. Cham: Palgrave Macmillan, pp. 393-407. https://doi.org/10.1007/978-3-030-13475-4_17
- Chiti, M. & Santoro, V. 2019. *The Palgrave Handbook of European Banking Union Law*. Cham: Palgrave Macmillan. <https://doi.org/10.1007/978-3-030-13475-4>
- Ferran, E. 2004. *Building an EU Securities Market*. Cambridge: Cambridge University Press. <https://doi.org/10.1017/CBO9780511494765>
- Howarth, D. & Quaglia, L. 2016. *The Political Economy of European Banking Union*. Oxford: Oxford University Press. <https://doi.org/10.1093/acprof:oso/9780198727927.001.0001>
- Lastra, R. & Louis, J. V. 2013. European Economic and Monetary Union: History, Trends, and Prospects. *Yearbook of European Law*, 32(1), 1-150. <https://doi.org/10.1093/yel/ylt003>
- Moloney, N. 2010. Financial Services and Markets. In: Baldwin, R., Cave, M. & Lodge, M. (eds.), *The Oxford Handbook of Regulation*. Oxford: Oxford University Press, pp. 437-461. <https://doi.org/10.1093/oxfordhb/9780199560219.003.0018>
- Moloney, N. 2008. *EC Securities Regulation*. Oxford: Oxford University Press.
- Omarova, S. T. 2020. Technology v Technocracy: Fintech as a Regulatory Challenge. *Journal of Financial Regulation*, 6(1), 75–124. <https://doi.org/10.1093/jfr/fjaa004>
- Posner, E. 2012. The Lamfalussy Process: Polyarchic Origins of Networked Financial Rule-Making in the EU. In: Sabel, F. & Zeitlin, J. (eds.), *Experimentalist Governance in the European Union – Towards a New Architecture*, pp. 43-60.
- Reinhart, C. M. & Rogoff, K. S. 2009. The Aftermath of Financial Crises. *American Economic Review: AEA Papers & Proceedings*, 99(2), pp. 466-72. Available at: https://dash.harvard.edu/bitstream/handle/1/11129155/Reinhart_Rogoff_Aftermath_of_Financial_Crises_AER2009.pdf?sequence=1&isAllowed=y, 1.12.2025 <https://doi.org/10.1257/aer.99.2.466>
- Veron, N. 2024. Europe's Banking Union at Ten: Unfinished yet Transformative. Peterson Institute for International Economics Working Paper No. 24-15. <https://doi.org/10.2139/ssrn.4876601>

Internet Sources

- Arnold, M. 2025. EU watchdog warns of resistance to Brussels' bid to slash red tape - ESMA chair says national pushback to harmonising rules risks undermining its push to become a European SEC. *Financial Times*, 9 February 2025. Available at: <https://www.ft.com/content/e9af68f2-2981-47a2-808d-49edf46e2db0>, 1. 12. 2025.
- Asgari, N. 2024. French Capital Markets Union plan gets backing from European funds body. *Financial Times*, 30 April 2024. Available at: <https://www.ft.com/content/f177a670-b1ab-4bf8-8bd6-acf5adaa4efe>, 1. 12. 2025.

- Asagri, N. & Müller, F. 2025. Europe needs “big bang” to boost investment, says Deutsche Börse chief. *Financial Times*, 16 March 2025. Available at: <https://www.ft.com/content/5be3c5c5-6a21-48e6-b064-b5127c34261e>, 1. 12. 2025.
- Bouabdallah, O., Dorrucchi, E., Hoendervangers, L. & Nerlich, C. 2024. Mind the gap: Europe’s strategic investment needs and how to support them. *The ECB Blog*, European Central Bank, 27 June 2024. Available at: <https://www.ecb.europa.eu/press/blog/date/2024/html/ecb.blog240627~2e939aa430.en.html>, 1. 12. 2025.
- Cambridge Centre for Alternative Finance, Academy of Internet Finance. 2018. Guide to promoting financial & regulatory innovation – Insights from the UK. University of Cambridge Judge Business School, Zhejiang University. Available at: https://www.jbs.cam.ac.uk/fileadmin/user_upload/research/centres/alternative-finance/downloads/2018-06-ccaf-whitepaper-guide-to-promoting-financial-regulation-innovation.pdf, 1. 12. 2025.
- Chassany, A-S. & Tamma, P. 2025. Germany open to handing more power to EU markets watchdog - Finance minister signals end of Berlin’s reluctance to completing Europe’s capital markets union. *Financial Times*, 10 October 2025. Available at: <https://www.ft.com/content/b5f5f7b9-2e39-4300-969e-f27bdda33815>, 1. 12. 2025.
- Council of the EU. 2024. Statement of the Eurogroup in inclusive format on the future of Capital Markets Union. 207/24, 11 March 2024. Available at: <https://www.consilium.europa.eu/en/press/press-releases/2024/03/11/statement-of-the-eurogroup-in-inclusive-format-on-the-future-of-capital-markets-union/pdf/>, 1. 12. 2025.
- Council of the EU. 2024a. Budapest Declaration on the New European Competitiveness Deal. Press Release 838/24, 8 November 2024. Available at: <https://www.consilium.europa.eu/en/press/press-releases/2024/11/08/the-budapest-declaration/pdf/>, 1. 12. 2025.
- Delors Report - Committee for the study of Economic and Monetary Union, Jacques Delors, Chairman. 1989. Report on Economic and Monetary Union in the European Community. Presented on 17 April 1989. Available at: https://aei.pitt.edu/1007/1/monetary_delors.pdf, 1. 12. 2025.
- Draghi, M. 2024. The future of European competitiveness - A competitiveness strategy for Europe. Luxembourg: Publications Office of the European Union. Available at: https://commission.europa.eu/topics/eu-competitiveness/draghi-report_en#paragraph_47059, 1. 12. 2025.
- Ehrentraud, J., Ocampo, D.G. & Vega, C.Q. 2020. Regulating fintech financing: digital banks and fintech platforms. Financial Stability Institute, BIS Insights on policy implementation, No 27. Available at: <https://www.bis.org/fsi/publ/insights27.pdf>, 1. 12. 2025.
- ESMA. 2025. Shaping the Future of EU Capital Markets Opening Remarks – ESMA Conference, Keynote speech by Verena Ross Chair European Securities and Markets Authority (ESMA), ESMA71-1206669466-844. ESMA, Paris, 5 February 2025. Available at: https://www.esma.europa.eu/sites/default/files/2025-02/ESMA71-1206669466-844_Verena_Ross__Opening_Remarks_at_the_ESMA_Conference_2025.pdf, 1. 12. 2025.

- ESMA. 2025a. Keynote speech by Verena Ross: ATVP Capital Markets Day, ESMA24-225943895-362, 8 April 2025, Ljubljana. Available at: https://www.esma.europa.eu/sites/default/files/2025-04/ESMA24-225943895-362_Verena_Ross__Keynote_Speech_at_the_ATVP_Capital_Markets_Day.pdf, 1. 12. 2025.
- ESMA. 2024. Building More Effective and Attractive Capital Markets in the EU – Position Paper, ESMA, May 2024. doi:10.2856/69601. Available at: https://www.esma.europa.eu/sites/default/files/2024-05/ESMA24-450544452-2130_Position_paper_Building_more_effective_and_attractive_capital_markets_in_the_EU.pdf, 1. 12. 2025.
- Eurobarometer. 2023. Monitoring the level of financial literacy in the EU, July 2023. Available at: <https://europa.eu/eurobarometer/surveys/detail/2953>, 1. 12. 2025.
- European Central Bank. 2024. Statement by the ECB Governing Council on advancing the Capital Markets Union, 7 March 2024. Available at: <https://www.ecb.europa.eu/press/pr/date/2024/html/ecb.pr240307~76c2ab2747.en.html>, 1. 12. 2025.
- European Central Bank. 2024a. Follow the money: channelling savings into investment and innovation in Europe. Speech by Christine Lagarde, President of the ECB, at the 34th European Banking Congress: “Out of the Comfort Zone: Europe and the New World Order,” Frankfurt am Main, 22 November 2024. Available at: <https://www.ecb.europa.eu/press/key/date/2024/html/ecb.sp241122~fb84170883.en.html>, 1. 12. 2025.
- European Central Bank. 2009. Financial Integration in Europe.
- European Chemical Industry Council (Cefic). 2025. The Antwerp Declaration for a European Industrial Deal. Available at: <https://antwerp-declaration.eu/>, 1. 12. 2025.
- European Chemical Industry Council (Cefic). 2024. The Antwerp Declaration for a European Industrial Deal. Available at: <https://cms.antwerp-declaration.eu/uploads/declaration.pdf>, 1. 12. 2025.
- European Commission. 2025. A Competitiveness Compass for the EU. Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions. Brussels, 29.1.2025. COM(2025) 30 final. Available at: https://commission.europa.eu/document/download/10017eb1-4722-4333-add2-e0ed18105a34_en, 1. 12. 2025.
- European Commission. 2025a. Speech by Commissioner Albuquerque (by video message) for the high-level conference on European financial integration: Advancing the Savings and Investments Union, jointly organised by the European Commission and the European Central Bank. Online, 12 June 2025. Available at: https://ec.europa.eu/commission/presscorner/api/files/document/print/en/speech_25_1484/SPEECH_25_1484_EN.pdf, 1. 12. 2025.
- European Commission. 2025b. Keynote speech by Commissioner Albuquerque at the FESE Convention 2025 (Federation of European Securities Exchanges), Brussels, 4 June 2025. Available at: https://ec.europa.eu/commission/presscorner/api/files/document/print/en/speech_25_1428/SPEECH_25_1428_EN.pdf, 1. 12. 2025.
- European Commission. 2025c. Savings and Investments Union A Strategy to Foster Citizens’ Wealth and Economic Competitiveness in the EU. Communication from the

- Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions. Brussels, 19 March 2025. COM(2025) 124 final. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52025DC0124>, 1. 12. 2025.
- European Commission. 2023. Launch of the European Blockchain Regulatory Sandbox. Available at: <https://digital-strategy.ec.europa.eu/en/node/11533/printable/pdf>
- European Commission. 2023a. 2023 State of the Union Address by President von der Leyen, Strasbourg, 13 September 2023. Available at: https://ec.europa.eu/commission/press-corner/api/files/document/print/ov/speech_23_4426/SPEECH_23_4426_OV.pdf, 1. 12. 2025.
- European Commission. 2020. Digital Finance Strategy for the EU. Brussels, 24 Sept 2020. COM(2020) 591 final. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020DC0591&from=EN>, 1. 12. 2025.
- European Commission. 2018. FinTech Action plan: For a more competitive and innovative European financial sector. Brussels: European Commission, COM(2018) 109 final. Available at: https://eur-lex.europa.eu/resource.html?uri=cellar:6793c578-22e6-11e8-ac73-01aa75ed71a1.0001.02/DOC_1&format=PDF, 1. 12. 2025.
- European Commission. 1999. Financial Services: Implementing Framework for Financial Markets: Action Plan. Brussels: European Commission, COM(1999)232.
- European Investment Bank. 2024. The scale-up gap: Financial market constraints holding back innovative firms in the European Union, EIB Thematic Studies. Luxembourg: European Investment Bank, June 2024. Available at: https://www.eib.org/attachments/lucalli/20240130_the_scale_up_gap_en.pdf, 1. 12. 2025.
- European Stability Mechanism. 2025. What is the ESM's lending capacity? Luxembourg: European Stability Mechanism. Available at: <https://www.esm.europa.eu/content/what-esm%E2%80%99s-lending-capacity>, 1. 12. 2025.
- Financial Stability Board. 2019. Fintech and market structure in financial services: Market development and potential financial stability implications. Available at: <https://www.fsb.org/wp-content/uploads/P140219.pdf>, 1. 12. 2025.
- IMF. 2023. IMF Background Note on CMU for Eurogroup, International Monetary Fund. Washington, D.C.: IMF, 15 June 2023. Available at: <https://www.imf.org/-/media/Files/News/Speech/2023/imf-background-note-on-cmu-for-eurogroup.ashx>, 1. 12. 2025.
- Lannoo, K. & Levin, M. 2004. Securities Market Regulation in the EU – Everything you always wanted to know about Lamfalussy Procedure. CEPS Research Report in Finance and Banking, No. 33. Available at: <http://aei.pitt.edu/9561/2/9561.pdf>, 1. 12. 2025.
- Letta, E. 2024. Much More Than a Market – Speed, Security, Solidarity: Empowering the Single Market to Deliver a Sustainable Future and Prosperity for all EU Citizens. Brussels: European Council, April 2024. Available at: <https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf>, 1. 12. 2025.

- McKinsey & Company. 2018. FinTech decoded – Capturing the opportunity in capital markets infrastructure. Global Banking Practice. Available at: <https://www.mckinsey.com/~media/McKinsey/Industries/Financial%20Services/Our%20Insights/Fintech%20decoded%20The%20capital%20markets%20infrastructure%20opportunity/Fintech-decoded-Capturing-the-opportunity-in-capital-markets-infrastructure-final-web-version.ashx>, 1. 12. 2025.
- Restoy, F. 2021. Fintech regulation: how to achieve a level playing field. Financial Stability Institute Occasional Paper No 17. Basel: Bank for International Settlements. Available at: <https://www.bis.org/fsi/fsipapers17.pdf>, 1. 12. 2025.
- Segré Report - European Economic Community, Commission, Segré, C. 1966. The Development of a European Capital Market – Report of a Group of Experts appointed by the EEC Commission. November 1966. EU Commission - Working Document. Available at: http://aei.pitt.edu/31823/1/Dev_Eur_Cap_Mkt_1966.pdf, 1. 12. 2025.
- Tamma, P. 2025. Can Europe finally fix its capital markets? – Stung by its lack of competitiveness, the EU is making a new push to create a deep financial market. Some investors believe this time could be different. *Financial Times*, 13 May 2025. Available at: <https://www.ft.com/content/e23117c0-3fe6-4b89-b1fc-c99f49976dc0>, 1. 12. 2025.
- Tamma, P. 2025a. EU revives capital markets union plan to unlock trillions in savings, Financial Services Commissioner says Europeans need better incentives to invest rather than save. *Financial Times*, 19 March 2025. Available at: <https://www.ft.com/content/a0f85177-562c-4a92-b2d6-c4b7da45ce8a>, 1. 12. 2025.
- Tamma, P., Foy, H. & Hancock, A. 2024. Majority of EU states object to capital markets reform push - France led calls to revive financial integration project to help fund Europe's rearmament and green transition. *Financial Times*, 18 April 2024. Available at: <https://www.ft.com/content/6164fb0d-634f-444b-b7e5-069c590f24ca>, 1. 12. 2025.
- Werner Report - Council – Commission of the European Communities. 1970. Realisation by stages of Economic and Monetary Union in the Community – “Werner Report.” Supplement to Bulletin 11 – 1970. Available at: https://ec.europa.eu/economy_finance/publications/pages/publication6142_en.pdf, 1. 12. 2025.
- World Economic Forum & Deloitte. 2017. Beyond Fintech: A pragmatic assessment of disruptive potential in financial services. Part of the Future of Financial Services series. Available at: http://www3.weforum.org/docs/Beyond_Fintech_-_A_Pragmatic_Assessment_of_Disruptive_Potential_in_Financial_Services.pdf, 1. 12. 2025.

