Missing: The Institutional Pillars of the SIU

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The Institutional Pillars of the Savings and Investment Union

Introduction

The 2024 reports by Enrico Letta and Mario Draghi served as a wake-up call for Europe's slumbering economy, highlighting Europe's persistent mismatch between high savings and low investment as well as pressing for urgent measures to unlock additional capital. But almost two years (and many speeches) later, European capital markets remain as inefficient and fragmented as ever. These structural weaknesses matter all the more as

Europe faces generational investment needs in AI, defence, and the climate transition.

A Savings and Investment Union is being conceived to address these challenges. Its objective is not only to deepen capital market integration, but also to mobilise private and public capital for Europe's strategic priorities. The first legislative proposals were released in 2025, among them a simplification of the EU securitisation framework to enhance bank lending capacities and a review of the pan-European personal pension product regulation to increase supply and demand for supplementary pensions. The latest proposal to be released is the market integration package. Its objective is the harmonisation and streamlining of European standards for trading, central securities depository services, settlements, and asset management. Furthermore, it aims to strengthen the European Securities and Markets Authority (ESMA) by introducing centralised supervision of significant market infrastructures and crypto service providers, promoting regulatory coordination on other supervisory areas like asset management, and reforming the agency's governance with a more independent Executive Board (European Commission, 2025a, 2025b, 2025c).

These measures represent important steps in the right direction. However, even if fully implemented, they would leave key structural bottlenecks in place, preventing global savings from flowing efficiently into EU investment. This reflects a deeper problem: the EU has yet to establish a genuinely European approach to the institutional pillars of capital markets. Until it does, the Savings and Investment Union will remain an aspiration rather than a reality.

Structural Bottlenecks

Fragmented securities supervision. As of now, European oversight of the securities market is, with a few exceptions, carried out by Member States' national competent authorities (NCAs). ESMA, in contrast, is responsible first and foremost for setting technical standards and coordinating supervision between the NCAs. While the market integration package is making some progress in securities supervision, it leaves supervisory powers on all issuers and asset managers with the NCAs.

The new arrangement remains only a second-best solution without further action. Independent and competing NCAs are likely to continue to follow national interests and thus differ in their interpretation and enforcement of European legislative acts in the realm of issuers and asset managers. This has two consequences. First, there continue to be supervisory race to the bottom dynamics that prevent a level playing field and might pose financial stability risks. Second, market actors operating across the EU continue to suffer from disproportionate compliance costs, which in turn hinders the emergence of European champions benefiting from economies of scale and thus providing more efficient services (Noyer, 2024, p. 61 f.).

Absence of a European public safe asset. Assets need to fulfil three criteria to be considered safe: a low default risk, a stable value even during bad times, and a liquid market (Bletzinger, Greif and Schwaab, 2022, p. 2). Government bonds are, due to their insurance by the entire tax base and high trading volumes, typically the most suitable candidates. However, the euro area has been suffering from a shortage of such safe assets ever since the EDC led to downgrades of many sovereign bonds in the early 2010s. The few remaining AAA bonds were not only insufficiently supplied due to fiscal austerity stances but also strongly demanded due to the ECB's quantitative easing policies as well as Basel III liquidity requirements. There is also a general argument to be made that EU Member States individually are simply too small to provide safe assets that can serve as a viable European benchmark and compete with US Treasuries internationally (Boonstra and Thomadakis, 2020, p. 2; Gossé and Mourjane, 2021, pp. 1–3; Panetta, 2023; Noyer, 2024, p. 55).

Without a sufficiently available risk-free benchmark, pricing and development of risky financial products (e.g., corporate bonds and derivatives) become more difficult, clearing activities and interbank markets lack a universal collateral, market participants face higher risk exposures, and attracting foreign capital is more challenging (Panetta, 2023). Furthermore, the recently proposed simplification of the EU securitisation framework could pose financial stability risks in the absence of a European public safe asset. Without a public safe asset supply, investors may turn to seemingly safe bank debt as a substitute. To meet this demand, banks are likely to increase securitisation practices so as to diversify portfolio risk and thereby expand their lending capacity. Crucially, the fact that many new loans will be securitised and sold to other market actors reduces incentives to screen them carefully. A significant quantity of asset-backed securities might therefore end up being riskier than they appear, raising systemic risk. This means that while some demand for safe assets can be met through securitisation, public safe assets should remain the backbone of Europe's capital markets (Castells-Jauregui, 2025).

Policy Recommendations

Unifying European securities supervision. While the market integration package is making some progress in securities supervision, the lack of direct ESMA supervision of issuers and asset managers needs to be addressed in future legislation so as to integrate larger parts of the European securities market. The most feasible option is to start by subjecting only large multinational entities to ESMA supervision (Draghi, 2024, p. 292; Letta, 2024, p. 34).

This would mean significant progress towards a Single Market for financial services and capital. Unified supervision for large multinational issuers and asset managers would diminish the influence of national interests and

thus inhibit race to the bottom dynamics as well as further level the playing field between Member States. Moreover, it would reduce compliance costs for firms operating across borders, enabling pan-European economies of scale and thereby a more efficient supply of financial services.

To mitigate any competence creep concerns, purely local entities should stay under NCA supervision, and Joint Supervisory Teams between ESMA and NCAs should be established. It would also be possible to start with an opt-in approach, where even large multinational firms can decide for themselves whether they want to be supervised by NCAs or ESMA (Draghi, 2024, p. 293; Noyer, 2024, p. 71).

Advancing a European public safe asset. While there have been many proposals for establishing a European public safe asset, many seem unfeasible in practice. Risk-sharing eurobonds induce moral hazard issues for fiscally fragile Member States and thus face fierce opposition by their fiscally sound counterparts. Synthetic sovereign bond-backed securities (SBBS) solve the risk-sharing problem but might be overly complex to create and maintain. In contrast, supranational bonds funding the EU Multiannual Financial Framework (MFF) feature only indirect risk-sharing and are relatively simple to implement (Boonstra and Thomadakis, 2020, p. 7; Gossé and Mourjane, 2021, pp. 2–8).

Having a European public safe asset would further develop capital markets by providing a standard risk-free yield curve for all maturities, which can be used as a benchmark for the pricing of other securities within the Single Market. It would also constitute a universal collateral for European clearing activities and interbank markets, and improve the risk exposure of market actors. Moreover, it would attract foreign private and public capital, potentially increasing the financing available in Europe while also reinforcing the euro's appeal as a global reserve currency. Lastly, it could mitigate financial stability risks stemming from an excessive dependence on securitised safe assets. For this reason, any liberalisation of securitisation should be accompanied by the creation of a European public safe asset (Boonstra and Thomadakis, 2020, p. 6 f.; Panetta, 2023; Castells-Jauregui, 2025).

However, significant hurdles remain in that the Treaties do not explicitly allow for the permanent issuance of supranational bonds, meaning an amendment to Article 125 TFEU would likely be required. This presents a major obstacle, as unanimous agreement is needed, and AAA-rated Member States such as Germany, the Netherlands, and Sweden have already rejected calls for common debt in the MFF 2028-2034 (Boonstra and Thomadakis, 2020, p. 5; Gossé and Mourjane, 2021, pp. 2–8; Blenkinsop and Martinez, 2025).

Such positions often reflect that AAA-rated Member States enjoy lower borrowing costs on their national bonds than on the Next Generation EU bonds issued during the Covid-19 pandemic (Claeys, McCaffrey and Welslau, 2023). To address these concerns, the issuance of supranational bonds should be supported by an ambitious fiscal framework that goes beyond the

1997 Stability and Growth Pact and the 2012 Fiscal Compact. Stronger and more credible constraints on excessive borrowing by fiscally weak Member States can be expected to lower the risk premium that markets ascribe to supranational bonds.

Conclusion

Achieving a true Savings and Investment Union requires more than incremental measures. Remaining structural bottlenecks must be addressed through an ambitious European approach to securities supervision and safe asset provision. Without the institutional pillars that underpin integrated capital markets, dreams of a truly competitive, sovereign, and climate-neutral Europe will remain just that: dreams.

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