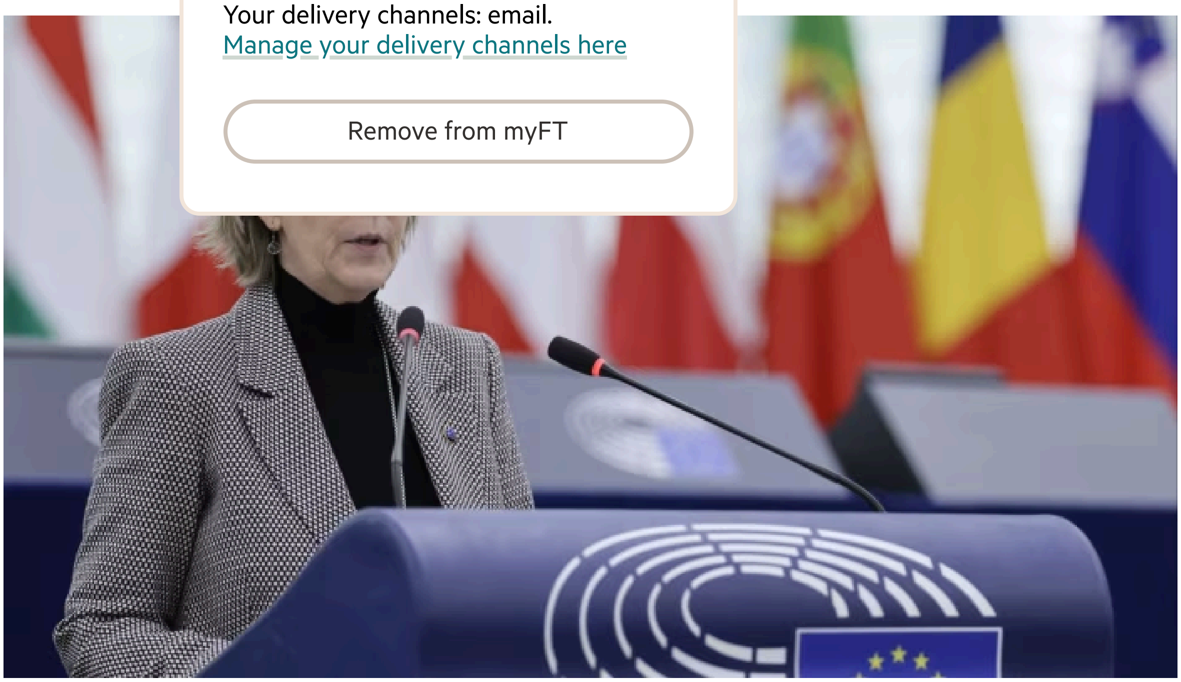
EU capital markets union

EU revives capital markets union plan to unlock trillions in savings

Financial servic ntives to invest rather than save



EU financial services commissioner Maria Luís Albuquerque: 'The idea is giving European savers a solution to invest in Europe . . . the opportunities will be there' © Ronald Wittek/EPA-EFE/Shutterstock

Paola Tamma in Brussels

Published MAR 19 2025

The European Commission is making a fresh push for integration of EU capital markets that it says could free up investment from trillions of euros stashed in European savings accounts.

The EU executive on Wednesday proposed a raft of measures including tax incentives for savers to invest in European assets, a review of capital requirements for lenders and insurers, and more centralised market supervision.

"It is about building the solutions that allow us to access the pool of European resources which are quite big," Maria Luís Albuquerque, the EU's financial services commissioner, told the Financial Times.

Barriers to cross-border investment and Europeans' preference to save rather than invest meant that €11.6tn — about a third of total private wealth in the EU — were sitting idle in bank accounts and cash reserves in 2023, according to commission data.

Albuquerque wants to encourage citizens to buy European companies' shares and invest in European products by encouraging countries to give them favourable tax treatment.

"The idea is giving European savers a solution to invest in Europe . . . the opportunities will be there. On defence, in particular, I think that money will follow naturally," said the Portuguese commissioner.

But Brussels has no powers over national tax regimes, meaning the commission "can only recommend giving a favourable tax treatment", she said.

Previous attempts to integrate the EU's fragmented capital markets have stalled due to resistance from member states reluctant to accept central supervision and harmonise insolvency laws across the bloc, and Germany's opposition to a common European deposit insurance scheme.

"None of us is big enough to actually address the problems, to be efficient and to provide the answers that both savers and companies need," Albuquerque said. "The main issue, if I have to choose a word, is fragmentation."

But EU leaders have recently called on Brussels to complete capital markets integration, which Albuquerque hopes will translate into willingness to reach a compromise.

"I don't think that there's anything yet to be invented, it's all out there. The idea is to make it workable," she said. "If there is political will . . . then we should find ways forward."

A key part of this plan will be to give the European Securities and Markets Authority, the EU's markets regulator, direct supervision of certain entities, modelled after the US Securities and Exchange Commission, which is both a regulator and a watchdog.

The proposal is controversial among smaller economies such as Luxembourg and Ireland which have a highly developed financial sector and prefer to keep supervision in-house.

“For some entities, the best way to deliver on harmonised supervision is giving them a single supervisor,” Albuquerque said. She mentioned large trading infrastructure, cryptocurrency exchanges and big cross-border asset managers as “good candidates for centralised supervision”.

Another proposal the commission will present is reviving securitisation, the practice whereby loans are packaged into marketable securities and sold on. This is expected to free up banks’ balance sheets and increase bank lending, which at present provide 80 per cent of all EU funding needs.

The commission plans to do so by reviewing the prudential requirements for banks and insurance companies, as well as allowing more favourable prudential for investments — something welcomed by lenders.

“The system was designed to correct the problem of an environment where there was excessive risk taking. Now the problem can hardly be described as excessive risk taking. If anything, it’s not enough risk taking,” Albuquerque said, adding that “the competitiveness gap that we need to address requires us to take some more risk”.

“Our competitors are outside the EU and the size of the challenge . . . requires us to actually act together,” she said.

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