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Retail investors and capital markets need each other to succeed

European households have on average high savings rates, and yet too little of those savings produce the best outcomes for both savers and the economy at large. Therefore, the first compelling reason to change the current situation is the need to ensure that savings generate fitting returns to each person's objectives, be it an adequate retirement income or children's education. Long term savings, as in these two examples, should not be put in bank deposits. There, nominal returns are getting ever lower, and real returns are actually negative.

So, the imperative to change comes first and foremost from the need to provide our citizens with the tools to build better financial futures for themselves. That implies not only designing or adapting legal and regulatory frameworks, but also increasing the level of financial literacy so that each individual is better equipped to understand financial products and make the right choices.

Looking at retail investment as a source of funding for economic activities, there's no dispute that these resources could, and should, be channelled to investments that match the longer-term nature of household's savings. Developing the funds industry, promoting an equity culture, generalising auto-enrolment occupational pension systems, and, most of all, rebuilding people's trust in the financial system, are critical if the EU wants to deliver on its ambitious goals of becoming more competitive and sustainable, while taking full advantage of the benefits of digitalisation. All available resources will have to be pooled to cope with the tremendous investment effort required.

In the crisis spurred by the Covid-19 pandemic, the immediate response of support to the economy, though much needed, led to a sharp increase in indebtedness, both for sovereigns and corporates. The banking sector, backed by regulators' flexibility and the monetary policy stance, has contributed significantly to stabilise the economy in this first phase. However, if we are to avoid the risk of an extensive destruction of productive capacity across the EU, debt, and in particular bank debt, is not the answer. Companies, including small and medium size companies, must have increased access to equity through the capital markets if they are to be effectively supported over the long recovery process ahead. Developing the instruments which promote retail investment engagement, while assuring the necessary investor protection, may actually prove decisive for the survival of many viable businesses. Innovative businesses, growing businesses, in order to be successful in Europe, also depend critically on available funding through capital markets, including that provided by retail investors.

The post-Covid recovery challenge adds to the urgency and relevance of what was already recognised as the necessary way forward. The Commission's new action plan, appropriately called "A Capital Markets Union for people and businesses", sets an ambitious roadmap with targeted and specific measures, taking on board many of the recommendations put forward by the High-Level Forum on CMU.

The actions in the new CMU plan directed at increasing retail investor participation in capital markets, if delivered as intended, do address many of the relevant problems identified, but they are no silver bullet, because there is no such thing in such a complex reality. Culture, namely the lack of a risk culture as seen in other geographies, also plays an important role, and that will take longer to change. Also, powerful instruments in influencing people's decisions, like taxation, are not under the Commission's remit, and therefore could not be considered in the action plan.

For the agreed actions to produce the desired impact, however, more needs to be done. All actors need to take ownership of the plan and do their share. That means swift decision processes through the Council and European Parliament, but also in Member States. Decision makers must recognise the importance of developing integrated and efficient capital markets, and act to put our common goals above protectionist temptations and vested interests. It will not be easy, but it will definitely be worth it.