BOOSTING THE COMPETITIVENESS OF CAPITAL MARKETS

HANZO VAN BEUSEKOM
Member of the Executive Board – Dutch Authority for the Financial Markets (AFM)

Strengthening Europe's Capital Markets: Time to deliver

Despite years of initiatives, Europe's capital markets remain too fragmented and shallow. The EU accounts for just over 10% of global market capitalization, less than a quarter of the United States. The European Commission's strategy for the Savings & Investments Union (SIU) identifies the core challenges facing Europe and offers a constructive path forward. These plans provide a solid foundation for creating the integrated capital markets needed to boost competitiveness.

Implementation is the real test. To finance the green and digital transitions, support SMEs, and attract global capital, the EU must simplify and integrate its market structures, by reducing regulatory complexity, enabling more coordinated supervision and establishing a central data hub. Without decisive action, the SIU risks becoming another strategy that falls short in practice.

Evolving Market Patterns and the case for more coordinated supervision

In its *State of the Capital Markets 2025*, the Dutch Authority for the Financial Markets (AFM) highlights persistent frictions that hinder EU market integration. Trading clusters increasingly at the end of the day, while major price movements are often driven by overnight developments outside the EU. Liquidity is concentrated in a few large players and venues, particularly in less-traded stocks, and retail orders are mostly executed on a handful of platforms. Meanwhile, a large share of trading in Dutch-listed equities is conducted by firms based outside the Netherlands. These trends reflect markets that are more cross-border, yet supervision remains fragmented and national. Diverging supervisory mandates and approaches result in inconsistent rule application, hinder oversight of cross-border activity, and increase compliance costs.

Supervision must align

One possible avenue to enhance supervisory consistency is a gradual shift of certain responsibilities to the European level, starting with systemic entities and large entities with cross-border activities. Further exploration of this option within the SIU context is warranted, provided it is accompanied by adequate resources, a risk-based mandate, and a clear governance framework.

Shared data is essential

To support such a shared supervisory model, effective and consistent access to data is essential. However, Europe's current reporting landscape remains fragmented, with national authorities operating separate systems and formats. While the creation of the European Single Access Point (ESAP) is a welcome development, it targets public disclosures but not the broader inefficiencies in supervisory data collection and use. The AFM therefore sees merit in a more ambitious approach to data centralization. This includes developing a common data dictionary, establishing a central EU data hub, and using shared supervisory tools. Hosting these at the European level, ideally within ESMA, could promote harmonized reporting, reduce duplication, and enhance timely, risk-based oversight.

Simplification is key

The objective should not be deregulation, but smarter and more effective regulation. The AFM has consistently emphasized the importance of proportionality in EU rulemaking, particularly for small and mid-sized entities that do not pose systemic risks. Regulatory frameworks should be tailored to the size, complexity, and risk profile of firms, with clearer thresholds and more targeted requirements. A single rulebook, combined with consistent supervisory interpretation and implementation across Member States, is essential to ensure a level playing field. Further alignment of reporting regimes, such as under AIFMD and UCITS, as well as greater harmonization of insolvency and tax rules, would help reduce legal and operational barriers to cross-border activity and improve the overall functioning of EU capital markets.

EU Capital markets need action: aligned supervision, integrated data, bold implementation.

Europe's moment of truth

The SIU strategy rightly identifies the core challenges facing Europe's capital markets: limited scale, low retail participation, and regulatory complexity. But recognizing these issues alone is not enough. Meaningful progress requires coordinated action to centralize data collection, modernize market infrastructure, align regulatory frameworks and supervision. These are not radical shifts, but necessary steps to create capital markets that are competitive, resilient, and capable of financing Europe's long-term priorities. The AFM remains committed to supporting this process.

PALOMA MARÍN BONA

Vice Chair – Spanish Securities and Exchange Commission (CNMV)

Equity markets as a strategic lever for investment and innovation

Europe is facing an unprecedented challenge in the volume of investments required over the next years. Ageing demographics, geopolitical fragmentation, defence, the green and digital transitions, and the growing fiscal constraints demand a bigger mobilization of private capital. According to the Draghi report, an additional €750–800 billion per year will be needed to raise EU investment from 22% to 27% of GDP and meet the strategic objectives.

Equity markets can play a key role in achieving those objectives by enabling companies, and particularly, innovative firms to access long-term financing. However, the picture across Europe shows the underperformance of our equity markets in terms of depth and scale. The EU equity markets remain shallow compared to those of other developed economies. Over 70% of corporate funding in the EU still comes from banks, versus around 30% in the US.

This over-reliance on bank financing limits access to funding for these firms, which often lack credit history or publicly available information, making it harder for banks to assess their risk accurately.

Additionally, retail participation in equity markets is significantly lower than in the US, and IPO volumes have dropped considerably in recent years. All of this hinders the flow of capital from savings to productive investment.

Three main factors are behind the underdevelopment of European equity markets:

First, regulatory fragmentation reduces incentives to issue and invest in equity in the EU and discourage the development of pan-European players. Companies seeking to expand across borders still face major challenges due to differences in insolvency regimes, company laws, and tax treatments. While significant progress has been made in harmonizing market rules, further alignment in the market infrastructures domain and in supervisory practices is needed.

Second, the complexity of the legal frameworks and overregulation in some areas make it harder for companies—especially smaller ones— to access capital markets. These firms can easily become overwhelmed by the complexity and costs involved.

Finally, lower levels of financial literacy and limited tax incentives prevent household savings from being channelled into equity instruments.

From diagnosis to execution: Priorities for action

To overcome the underperformance of the equity markets in the EU, action should focus on two fronts: making access and participation in capital markets more attractive for both the supply and demand sides and strengthening institutional and supervisory alignment.

This can be translated into the following four essential elements which in principle are identified in the SIU Strategy:

First, streamline the process to access equity markets to make it easy and more accessible for companies, particularly smaller and innovative firms, to finance themselves in these markets.

The initiative "BME Easy Access", recently introduced in the Spanish market, is an example of a new Initial Public Offering (IPO) procedure designed to make it easier and more flexible for companies to list on regulated markets. Unlike the traditional model, companies can now list shares without immediately meeting the minimum free-float requirement. This procedure grants companies a period to comply with the free-float requirement, allowing them to better plan the timing of the placement and reduce risks. This is particularly relevant in the current volatile and uncertain geopolitical context.

Second, incentivise retail participation by encouraging equity-based investment via easy procedures, tax incentives and a financial literacy strategy.

Third, enhance institutional investment participation in long-term equity investing by among other measures, avoiding undue regulatory barriers and removing the Debt-Equity bias in tax systems.

Europe needs deeper equity markets to fund its strategic goals and regain competitiveness.

Fourth, remove barriers to cross-border activity in trading and post-trading infrastructures and ensure better quality of execution and price formation on EU trading venues.

Lastly, a more integrated and harmonised supervisory framework and more consistent implementation of rules are essential to attract both issuers and investors to the European equity markets and for our companies to gain in scale. In this regard, centralizing the supervision of certain cross-border activities—such as CCPs, systemic market infrastructures, or crypto-asset platforms—within ESMA would contribute to meet that objective.

All these reforms are crucial to revitalize the European equity markets and be able to finance Europe's strategic priorities and support long-term growth. They are to some extend contemplated in the SIU package, but we should not delay its execution.

LĪGA KĻAVIŅA

Deputy State Secretary on Financial Policy – Ministry of Finance of the Republic of Latvia

Small market opportunities from Savings and Investment Union

To drive economic growth and competitiveness, Latvia along with other two Baltic countries navigate its journey towards enhanced capital market development in alignment with the goals of the EU`s Savings and Investment Union (SIU).

Boosting competitiveness and ensuring economic security in the region are particularly important in the context of current geopolitical situation. Mobilizing private capital for productive investments is also essential to ease the fiscal burden while increasing defence expenditures and supporting double transition. A strong, liquid and integrated capital market will serve as a building block for the SIU, paving the way for further reduction of cross border barriers, capital market deepening and integration, providing more investment opportunities and expand EU wide access to capital and SME financing.

Latvia's capital market has been gradually developing, supported by regulatory reforms and integration within regional and EU financial systems. Development of the capital markets benefited from the integration within the well-functioning Nordic capital market infrastructure and through extensive public and market-led regional cooperation with other two Baltic countries. This effort is supported by the EBRD as a partner in development of the Pan-Baltic capital markets.

Through this successful cooperation more harmonized approach in the Baltic region has been achieved in different areas, including the regulatory environment. The Baltic market trading and post-trading infrastructure is fully integrated with a single platform and a single post-trade infrastructure, including a single central securities depository in Riga. For the market classification (MSCI index), the size and liquidity requirements are assessed on a consolidated basis for whole Baltics. Despite the modest size of the market, achieved common principles and functioning model is outstanding.

Latvia has an active bond market, including government bonds used for public financing and infrastructure projects. Other capital market development supportive elements are well functioning – three pillar pension system with auto-enrolment, savings and investment account etc. To complement the SIU from domestic perspective further development of national capital market continues in different areas.

Retail investment and long-term savings

Retail investment plays a fundamental role in capital markets development, channelling households' savings into the real economy. To encourage households to participate more actively in capital markets and take advantage of increased returns, policy measures are mainly targeted towards incentivizing long - term savings products with simplified, flexible and user-friendly investment process, tailored tax incentives, automated investment solutions and low fee structure. Due to relatively limited offer in the home market our retail investors could benefit from a wider range of European savings and investment products since other elements of private investor friendly infrastructure are in place.

Improved liquidity and depth of capital market

High dependency on bank lending is shaping our economic structure. Equity financing accounts for less than 2% of GDP. Although the bond market has grown faster in recent years, it still provides limited opportunities to invest in domestic companies. The lack of capital market development has been linked to a lack of scale and of market liquidity. This creates a vicious circle that hinders the development of smaller and less liquid markets that struggle to attract international investors, thus reinforcing the gap in capital market development. In response, the policy measures are targeted towards creation of right incentives for market makers and liquidity providers for development of the new capital market instruments, ensuring that stocks and other financial products can be bought and sold easily.

Despite the modest size of the market, achieved common principles and functioning model is outstanding.

Latvia's progress in capital market development reflects a strategic and forward-looking approach to unlocking growth and investment potential. While challenges remain, especially around market liquidity, investor engagement, and structural depth the groundwork has been laid for meaningful and sustainable progress. By continuing to expand retail participation, and align with the broader SIU objectives, Latvia is positioning itself as a proactive contributor to a more integrated European capital market. In doing so, it not only strengthens its own economic foundations but also reinforces the collective resilience and competitiveness of the Baltic and EU economies.

CHRISTOPH BERGER
Chief Investment Officer Equity Europe – Allianz Global Investors

A bold SIU strategy as key enabler for European (financial) sovereignty

European competitiveness and sovereignty are rooted in financial sovereignty, underpinned by two key factors:

1. A strong local investor base ensures access to (public) equity for fast-growing, innovative corporates and strategically important sectors such as critical infrastructure and digital industries. Private equity remains a key capital provider as well but ultimately relies on exit opportunities at public equity markets. Sweden is a positive example, with more than 500 IPOs between 2013 and 2024, demonstrating how a vibrant local investor base can fuel innovation, entrepreneurship, and growth.

2. Only a small part of the population in the EU has participated in the long-term, robust development of European equity markets. Over the past decade, these markets have delivered solid returns, yet the benefits have not been broadly shared. In key EU economies like Germany, for instance, there has been a modest increase in the retail investor base – by the end of 2024, 12,1 million citizens were invested in equities, funds, or ETFs. However, this fraction remains too small to democratize wealth creation across the continent. Much of the Europeans remains on the sidelines, missing out on the wealth generated by Europe's innovative companies and strong market performance.

Infrastructure investments and equity, both public and private, are the lifeblood of economic innovation and growth. By elevating key sectors to strategic prominence, the EU can unlock vast potential for economic expansion. For example, in industries such as semiconductor lithography, enterprise resource planning (ERP) software, aerospace and digital/AI, European companies hold global champions potential and play a vital role in strengthening European sovereignty. Public-Private Partnerships (PPPs) and tax incentives are powerful tools to engage the public sector and stimulate investment. These are set to enable a ripple effect of confidence and opportunity across the continent.

Yet, the journey to competitiveness demands more than targeted investments; it requires regulatory reforms. The EU must shed the shackles of gold-plating and engage in a thoughtful regulatory decluttering.

A few practical suggestions:

The upcoming Package for cross-border Asset Managers from the EU Commission (Q4 2025) presents a golden opportunity to reassess existing UCITSD and AIFMD requirements, enhancing cross-border capital flows.

An equity-friendly and simplification-driven SIU can spark innovation and wealth for Europeans.

Furthermore, UCITS is a robust label for EU investors and the world's gateway to EU capital markets. European policymakers should avoid pushing UCITS towards plain vanilla solutions and be very intentional in not restricting its eligible assets and keep innovation and diversification flowing. The current issuer limits ("5/10/40") are too restrictive and there should be a level playing field for active and passive investors.

The Savings and Investment Union (SIU) strategy's success hinges on its simplicity, flexibility, and customer-centricity. It could redefine capital markets by championing an inclusive, product-agnostic "Savings & Investment Accounts" that encompass UCITS, Insurance-Based Investment Products (IBIPs), and ELTIFs. The concept of "Savings & Investments Accounts" as introduced in Sweden in 1978, proves that tax incentives and administrative simplicity are key for success. The EU should learn from this model and adapt it to local needs, making it easier for citizens to invest.

Effective ESG rules must strike a delicate balance – ensuring ESG integration without stifling innovation—by easing overly burdensome reporting requirements and allowing for responsible investment in sectors of social necessity such as defense. Key ESG metrics, such as portfolio carbon footprint, should reflect genuine real-world decarbonization progress and remain agnostic to market price fluctuations. Looking ahead, the focus should be on supporting the "transition", recognizing that greenhouse gas-intensive sectors are not only part of the challenge but also essential to the solution. Many regulatory frameworks acknowledge this transition but do not yet prioritize it in a global context.

Finally, institutional investors are the architects of long-term capital infusion. Hence, regulatory frameworks for such investors should support appropriate allocation in equities. For instance, by pragmatically recalibrating Solvency II Level 2 risk measures, the EU can help unlock institutional investors' capital to fuel European long-term growth without compromising on policyholders' protection.

In conclusion, by prioritizing infrastructure, public and private equity, streamlining regulatory frameworks, and nurturing an investment culture, the EU can choose to redefine its role on the global stage. The untapped potential of European capital markets is vast, and with bold action, the EU can ignite growth and create wealth for a broad population.

FRANCIS MALIGE
Managing Director, Financial Institutions – European Bank for Reconstruction and Development (EBRD)

Leveraging capital markets to boost competitiveness in CEE

The legal and institutional frameworks of financial markets in many CEE countries have reached similar levels of development to those in more advanced markets. But public securities issuance and market liquidity have not improved. Investors are still wary. Why?

First, in terms of issuance and transaction costs, CEE markets are perceived to be relatively less competitive compared to more developed markets. Second, there are not enough issuers. And those big enough and ready to place securities on public markets often choose to list them in other venues, in search of higher valuations, investor interest and liquidity.

Ensuring access to finance for innovative and growing companies is crucial to achieve the EU's strategic priority of enhancing competitiveness. This is true regardless of where the companies are in their life-cycles or where they may be located on the continent.

The European economy depends heavily on small- and midsized companies, especially so in CEE countries, and European capital markets should be able to serve the needs of such smaller companies. While for some larger corporates a foreign listing may be optimal, small- and midsize companies mainly rely on their local and regional investor bases. This could be due to scale, brand recognition, currency mismatch, costs, or other reasons.

While a decline in both primary and secondary capital market activity can be observed globally, relatively lower liquidity and valuations make offering securities on smaller exchanges even less attractive. CEE markets remain modest in scale, with average market capitalisation standing at just over 15 percent of GDP (compared to 198% in USA, 84% in the UK or 51.5% in Germany).

However, a closer look reveals significant variation among CEE countries. Croatia leads the region in equity market capitalisation relative to GDP, with a figure slightly above 30 percent. In contrast, Bulgaria and Slovakia report ratios below 10 percent. Poland stands out as a regional leader in several respects. As of May 2025, Poland had over 800 listed firms, and its turnover ratio exceeded 40 percent. Despite this, its exchange remains smaller by market capitalisation than even the most modest stock exchange in Western Europe.

The ratio of outstanding corporate bonds to GDP paints a similar picture. With an average of 3.61% in the CEE region they range from less than half a percent in Romania to 15.6% in the Slovak Republic. This compares to 37% in Germany and close to 60% in France.

Regional integration of capital markets is an essential stepping stone towards EU-wide consolidation.

Still, there have been a number of success stories in the CEE region over the last decade. High profile IPOs have increased retail investor participation in markets significantly and paved the way for other companies to raise funding successfully, helping to put savings to productive use at home.

The EBRD's vision for the way forward is that of creating a landscape of interconnected local ecosystems: easy to access for investors while still catering to the needs of local issuers. Stock exchanges are often the focal point of the local capital markets ecosystem, taking on tasks around financial literacy of both companies and investors, corporate governance and market ecosystem development in the broadest sense.

It is true that development in capital markets can be a slow process. It involves elements of building trust, educating corporates and potential investors, cultivating intermediaries, and strengthening the local investor base by channeling savings into investment vehicles – and getting the timing right. Building regional market ecosystems can ensure increased attractiveness to both investors and potential issuers. These aims are fully in line with the objectives of the Savings and Investment Union.

The regional integration of capital markets is an essential stepping stone towards EU-wide consolidation. It will build larger regional pools of liquidity and develop scaled-up investment products. The EBRD, with its unique business model combining financing, advice and policy, has already supported the integration efforts of the Baltic states in this area. More recently, it did the same for those of eight CSEE stock exchanges that aim to achieve operational integration of capital market infrastructure, and activate retail investors by promoting long-term investing, improving market liquidity, and reducing barriers to investment on regional exchanges.

Much more needs to be done. But if we can make more progress on the above, those wary investors will look much more closely at the many opportunities in the CEE region.