

LEVERAGING THE ROLE OF BANKS IN THE SIU



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The critical role of EU banks in supporting capital market activities

EU banks historically serve as the backbone of the region's financial system, providing a significant share of financing to public authorities, corporations and households. Their centrality stems from their extensive deposit-taking, lending operations and broad distribution networks, which position them as pivotal actors in channelling savings into productive investments. In the context of a Savings and Investment Union (SIU), banks' role remains crucial for several reasons.

First, EU banks act as intermediaries that bridge retail savings and the capital markets. By mobilizing household deposits, banks can channel funds into securities, corporate bonds and other financial instruments, thereby

supporting the development of deep and liquid capital markets.

Second, banks contribute to market stability and liquidity by providing ongoing market-making activities, underwriting and credit risk assessment. Their longstanding relationships with clients facilitate the issuance process, improve market transparency, and foster investor confidence.

Third, banks' involvement in underwriting and distributing securities contributes to the diversification of funding sources for the corporate sector, reducing over-reliance on bank loans and fostering a more resilient financial system. This is especially pertinent given the EU's policy objectives of promoting long-term investment, innovation, and sustainable growth. Banks' capacity to adapt to evolving market demands and regulatory changes, such as the integration of sustainable finance principles, further underscores their importance as facilitators of the EU's capital markets development.

Regulatory and Structural Constraints Limiting Banks' Contribution

Despite their critical role, EU banks face substantial constraints that impede their ability to fully support capital market activities. These limitations are rooted in a complex web of regulatory restrictions, structural characteristics and market dynamics.

Regulatory constraints are perhaps the most obvious. Post-2008 financial crisis reforms, notably the Basel III requirements, have not only significantly fostered financial stability and resilience, but also significantly increased the capital and liquidity buffers banks must hold. While these measures enhance financial stability, they also limit banks' capacity to grant credits and to underwrite securities, especially for smaller or riskier issuers. Furthermore, MiFID II and the Prospectus Regulation, designed to improve market transparency and investor protection, have introduced operational complexities and compliance costs that can discourage banks from engaging extensively in capital markets activities.

Structural constraints are also evident. European banks tend to be small to medium-sized entities with significant exposure to traditional banking operations. This structure can lead to a

risk-averse culture and a focus on stable, fee-based retail banking activities over riskier capital market transactions. Moreover, the fragmentation of the EU's financial markets – characterized by differing national regulations, market practices, and investor bases – limits the scale and efficiency of cross-border capital market activities. This fragmentation hampers banks' ability to operate seamlessly across borders and to develop pan-European capital markets that could serve as a backbone for the SIU.

Furthermore, the declining profitability of traditional banking activities due to low interest rates, non-performing loans and increased competition from NBFIs has incentivised banks to prioritise core banking operations over capital market activities. NBFIs, such as asset managers and insurance companies, are increasingly taking on roles traditionally held by banks in capital markets, further constraining banks' involvement.

Balancing the Role and Constraints

Challenges in banks' capital market activities persist. The regulatory environment remains cautious, prioritising stability over rapid innovation, and structural issues such as market fragmentation and the traditional banking model continue to limit full realisation of the SIU's potential. Moreover, the shift towards sustainable finance and digital transformation presents both opportunities and uncertainties, requiring banks to adapt further.

In sum, EU banks play a vital and multifaceted role in supporting capital market activities within the framework of the SIU. Their experience, expertise and distribution networks position them as essential facilitators of diversified funding and market development. Nonetheless, regulatory and structural constraints – ranging from prudential requirements to market fragmentation – still significantly limit their potential contribution. The ongoing efforts to harmonise regulation, enhance market integration, and promote innovation can be crucial to unlocking the full capacity of EU banks in advancing the capital markets, thereby fostering a more resilient, diversified and sustainable financial ecosystem across Europe.



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Securitisation: A bridge between the Banking Union and the Capital Markets Union

One of the first initiatives under the Savings and Investment Union aimed at revitalising capital markets in the EU is the reform of the regulatory framework for securitisation. So far, the EU has not succeeded in restoring its securitisation market after the global financial crisis. In 2017, there was an attempt to restart the securitisation market through the framework for simple, transparent and standardised securitisation. However, this initiative did not deliver the expected growth, and the securitisation market has continued to stagnate. At the same time, the benefits of securitisation are undeniable: for banks, it enables more efficient capital and liquidity management; for the economy, it increases banks' lending capacity; and for investors, it broadens investment opportunities by transforming illiquid assets into tradable securities. All these aspects are important for the EU, as well as for Central and Eastern European (CEE) countries, which besides facing new investment needs related to digital and green transition and the need to increase defense spending are also undergoing

economic model transition and are facing the risk of falling into the middle-income trap. **Securitisation, functioning as a bridge between bank-based financing and capital markets, can play an important role in the ongoing transformation process and in efforts to close the investment gap.** Moreover, the banking sector enjoys a high level of trust, and through securitisation banks could contribute to building greater confidence in capital markets.

Diversification of the economy's funding sources could facilitate progress on the Banking Union.

The EU initiative does not fully reap the potential of securitisation

The current securitisation market in the EU is concentrated in large financial centres and within a few dominant banking groups whose large and developed domestic markets allow them to achieve the necessary scale. From the perspective of smaller Member States, including those in the CEE region, the main obstacle to the development of securitisation markets is the inability to reach sufficient scale for securitisation to be economically viable. The costs associated with securitisation are high, even for the largest banks in the CEE region. At the group level, there is also only limited inclusion of subsidiaries' portfolios in securitisation initiatives. If all Member States are to directly benefit from the ongoing revitalisation, it is necessary not only to remove administrative barriers and reduce transaction costs, but also to **provide an impulse for the creation of a securitisation platforms - at least at the regional level - that would facilitate the pooling of portfolios from multiple smaller institutions to achieve the scale required for economically viable transactions.** This would enable smaller markets and financial institutions to benefit from the current efforts to revitalise the securitisation market. At the same time, it would contribute to more efficient mobilisation and diversification of loan portfolios to finance smaller and medium-sized enterprises and broaden investment opportunities across the EU. This would be particularly helpful in the CEE region, where capital markets are underdeveloped and banks remain the primary source of financing for SMEs. The objective should therefore also

include the creation of a vehicle that enables smaller entities to participate effectively in this market.

Important link to the Banking Union

Ability of the CEE region to benefit from securitisation would not only support the development of EU capital markets, but also diversify sources of financing, thereby facilitating progress in discussions on the Banking Union. For the CEE region, this would represent an opportunity to engage more actively in European financial integration and contribute to the further deepening of capital markets across the EU.



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SME funding diversification - linking growth potential and financial stability

In Hungary, just like its regional peers, bank lending continues to play a dominant role in the financing of non-financial corporations, while the depth and liquidity of the domestic capital market remain limited. For SMEs, external financing is overwhelmingly loan-based, which during cyclical downturns may amplify vulnerabilities in both the real economy and the financial intermediation system. From a macro-financial perspective, the diversification of corporate funding sources is therefore a key policy objective: access to external financing aligned with firms' life cycles must remain stable and resilient!

In the early, high-risk phase of a firm's life cycle, bank financing faces natural constraints. The lack of a verifiable track record and adequate collateral creates information asymmetries that limit traditional lending. As a result, venture capital, business angel investments, incubation schemes, community financing and peer-to-peer solutions play a more prominent role in supporting start-ups. Such trends have been seen in several advanced and mainly Anglo-Saxon economies, but the CEE region still has "reserves" for catching up in this area.

During the growth phase, bank loans become increasingly important, while guarantee institutions can significantly enhance access to such credit. In that field Hungary has made significant progress in the outbreak of the coronavirus pandemic, by more than doubling guaranteed loans in percentage of GDP. By sharing risks guarantees help moderate credit institutions' collateral requirements, expand the pool of bankable SMEs, and reduce concentration within the banking sector.

Subsidized financing programmes further contribute to a balanced funding structure, including – as the results of MNB's Funding for Growth Scheme show – also across sectors and regions. EU and domestic programmes – particularly when combined with bank co-financing – can reduce project risks, improve investment returns and allow firms to complement market-based financing with non-repayable or preferential elements.

The development of the corporate bond market delivers multiple benefits. By providing competition to bank loans, it can reduce corporate funding costs and support investment activity. A sufficiently liquid bond market also strengthens monetary policy transmission, as changes in policy rates are more rapidly reflected in market yields. Moreover, substitutability between financing channels can mitigate credit supply shocks during periods of stress, thereby enhancing financial stability.

**A balanced funding
structure lays the
foundation for
sustainable growth and a
more resilient economy.**

In this context, the MNB launched the Bond Funding for Growth Scheme in 2019 to revitalise the domestic corporate bond market and promote funding diversification. The programme facilitated market entry for many issuers – predominantly first-time bond issuers –, thereby increasing the role of bond financing and improving rating-based risk pricing. Thanks to the programme, the size of the corporate bond market has grown nearly tenfold.

Achieving a balanced financing mix goes beyond product innovation. Banks increasingly act as integrators and strategic partners by connecting enterprises with guarantee institutions,

public support schemes, capital market participants, and alternative financing platforms. Although the role of fintech and bigtech firms in lending remains limited, data-driven credit assessment and platforms-based intermediation can accelerate financing processes in certain segments.

Nowadays, green transition is reshaping corporate financing structures. Financial institutions are setting up competence centres and offering an expanding range of green loans and ESG-linked products, while capital markets are witnessing a growing issuance of green and sustainability bonds. By acting according to its green mandate, the MNB's Green Preferential Capital Requirement Programme incentivises banks to finance energy-efficient and environmentally friendly investments, providing SMEs with more favourable funding conditions and long-term competitiveness gains. Thanks to that, green-classified financing makes up 6 per cent of corporate funding in banks' books.

For scaling enterprises, funding diversification is closely linked to the professionalisation of governance and operational frameworks. The Budapest Stock Exchange's Mentor Programme has supported hundreds of SMEs through education and advisory services, facilitating market entry on the BSE Xtend platform and, for some firms, subsequent progression to the regulated market.

From a macro-financial perspective, SME funding diversification represents the intersection of growth potential and financial stability. Beyond traditional lending, the banking sector – by leveraging risk sharing institutions, subsidized programmes, capital market channels and sustainability incentives – can help establish an optimal, life-cycle-based funding structure. A proactive, advisory-oriented banking approach reduces financing vulnerabilities and supports stable, sustainable growth in an evolving environment.



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It's the market, stupid: unlocking EU banks' potential in capital markets

American big banks are, on average, more profitable than European ones—why is that? Some would argue it is because there is an uneven regulatory playing field, which is tilted to the advantage of the institutions that call the US their home. This narrative, it seems, is gaining momentum amidst the debates about European competitiveness.

But this narrative about regulation as a barrier to banks serving society turns the evidence upside down. Faulty regulation laid the basis for the great financial crisis of 2008 and thereafter; the subsequent reforms have benefited society through increased stability and a steadier supply of credit. Certainly, it is important to discuss where regulation does not—or does so in an inefficient manner—serve the goal of stability. This is what Europe is currently pursuing under multiple programs, and the Bundesbank is a very active initiator in this endeavour to simplify regulation. Nevertheless, weakening regulation would be a step backward and would hurt society rather than help the economy.

But still, the question remains: why do US G-SIBs continue to be more profitable than their European peers? A prominent part of the answer is the size

of their respective capital markets. The combined capitalisation of US equity and bond markets far surpasses that of the EU. It allows for substantially higher fees and further non-interest income of large US banks. This is a problem for banks, but even more so for EU's productivity, and thus welfare. Venture capital investment is a particularly stark example for thinner markets in Europe. For the years between 2013 and 2023, the total amount of venture capital investment in the US was 924 billion euro, compared to a mere 130 billion euro in Europe – more than seven-fold more. Numerous studies have pointed to the important positive effects on innovation and growth from increased venture capital financing through the proliferation of non-rivalrous ideas. Strengthening Europe's capital markets is therefore not only about bank profitability – it is about Europe's long-term competitiveness and prosperity.

What can we do? We can finally follow through on the long-heralded plans for completing the integration of European capital markets, now called Savings and Investment Union (SIU). The Bundesbank and I are strong and long-standing proponents of this much-needed initiative. Deeper and more integrated European markets can support a better mobilisation and allocation of capital and foster innovation, productivity and competitiveness of the EU economy.

EU G-SIBs' disadvantage to US investment banks lies in differing capital markets, not in regulation.

Against this background, it is encouraging to see that the topic is currently at the top of the political agenda. Just a year ago, in March 2025, the European Commission published its Communication for a SIU, outlining a comprehensive roadmap of legislative and non-legislative measures for strengthening and advancing the integration of Europe's capital markets. Most of these measures were already further substantiated by specific Commission proposals and recommendations throughout 2025. We welcome the Commission's proactive approach within the SIU to address and advance on key issues for a stronger EU financial system.

Key proposals concern for instance various measures to improve the

mobilization of savings of EU citizens, starting from better financial literacy to the EU-wide provision of savings and investment accounts, to the strengthening of supplementary pensions. These can all be building blocks to reduce the gap in market-based equity financing in the EU compared with the US and other jurisdictions.

At the same time, barriers that lead to smaller and fragmented capital markets need to be removed. The Commission's recent comprehensive proposal for a market integration and supervisory package can be an important step in this direction.

In addition, the so-called 28th regime – an optional EU-wide legal framework for companies allowing firms to operate seamlessly across borders – could further reduce barriers for companies to grow and allow for faster expansions across the EU. Crucially, such a regime could be the way forward regarding the thorny issues of insolvency law and investor protection. The Commission has announced such a proposal for innovative firms this March.

In summary, the SIU sets vital directions, but its success depends on swift, purposeful implementation. Therefore, EU legislators and Member States now need to focus on their swift and effective implementation. The Bundesbank remains committed to stable, integrated, and innovative capital markets, always squaring competitiveness with financial stability. A welcome corollary would be a capital market business for European banks that is on par with that of their US peers.



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Seeking a comprehensive solution for SIU

The **Savings and Investment Union (SIU)**, the successor to the Capital Markets Union (CMU), represents a strategic shift toward a more integrated and effective European financial ecosystem. Central to this transformation is the role of EU banks, which will remain the primary financial facilitator of the Union's economy despite a growing emphasis on market instruments.

The Critical Role of Banks in the SIU

EU banks are indispensable to the SIU's success, serving three vital functions that bridge the gap between individuals, companies and capital markets.

Firstly, through the intermediation of household savings. As guardians of deposits, banks will be the primary channel for turning a large portion of the EU's €10 trillion in household savings into investments. Under the SIU, banks are expected to evolve into more active facilitators, making these household savings more productive for both savers and the wider economy. Of course, in doing so, banks will have to develop other financing sources as currently these deposits are deployed on their balance sheets supporting loans and advances to both European companies and individuals.

As shown in our report "Mobilising Retail Savings for Capital Markets", in 2023, £430 billion of retail savings, approximately 15% of UK GDP, were invested by UK citizens in ISAs. Of this, approximately £24.5 billion was directly invested in shares traded on a UK or EEA recognized stock exchange. Our insights show there is an additional £610 billion of possible investments held in cash that could be unlocked in the UK if more policy action is taken, a number that would be dwarfed in the EU if each member state introduces Savings and Investment Accounts.

Secondly, through market making and underwriting, banks will facilitate increased liquidity of the financial instruments invested in, supporting stable prices, and increase the amounts of new equity and bond issuances, giving companies the confidence that their fundraising will be completed on time and at scale.

Finally, and in support of the other two vital functions, through the facilitation of risk transfer via securitisation. Conversion of loan portfolios into tradable securities will enable banks to create additional capacity on their balance sheets, supporting increased lending to the corporate sector, including SMEs and innovative sectors that may be less well served through capital markets alone. A cornerstone of the SIU must remain the revitalisation of the securitisation market.

**Banks are and should
continue to be the
"connective tissue"
of the Savings and
Investment Union.**

Regulatory and Structural Action needed

Bringing this together, it is clear that only focussing of the redeployment of savings would give us only one side of the changes required to support the creation of the SIU. For banks to play their central role in facilitating the SIU, a comprehensive solution is required that ensures both halves of the balance sheet can be supported and mobilised.

1. Creating Savings and Investment Accounts across the EU

Member states need to put in place effective fiscal and other frameworks to ensure the active uptake of Savings and Investment Accounts (SIAs) across the EU, as the Commission is urging.

2. Tailoring Capital and Prudential Requirements to Support Transformation

While post-crisis regulations have made the sector safer, they have also increased the cost of equity for European banks.

Basel IV Implementation: too strict an application of Basel IV may further constrain banks' ability to hold the riskier assets required to support the technology, defence and transition financing that will grow the EU economy. The Commission's consultation on the competitiveness of the EU banking sector is an important start to this process.

Securitisation Costs: Current prudential requirements and high compliance costs are frequently cited as barriers that make securitisation less attractive for EU originators. The work the co-legislators have done on the securitisation package is to be commended but should not be the end of the effort required.

3. Fragmented Legal and Tax Frameworks

Banks operating across borders face a "silent tariff" caused by 27 different sets of insolvency laws and withholding tax procedures, among the many frictions present. This fragmentation makes it difficult for banks to offer pan-European investment products or realize synergies through cross-border mergers.

Conclusion

EU banks are and should continue to be the "connective tissue" of the Savings and Investment Union, providing the infrastructure and trust necessary to mobilize trillions in savings and accelerate the development of European capital markets. For the SIU to achieve its ambitions of a "financing ecosystem", the EU must simplify the regulatory hurdles that prevent banks from acting as true pan-European market facilitators, moving beyond simply supporting stability to also allow and encourage the prudent risk-taking needed to support a vibrant, growing economy.



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Unlocking Europe's potential: how banks can accelerate the SIU

Europe stands at a critical juncture, with aspirations for a robust Savings and Investments Union (SIU) aimed at boosting prosperity and innovation. Delivering on that ambition requires leveraging the institutions that already form the bedrock of our financial system – banks.

Banks remain the crucial financial interface for millions of households and many small and medium-sized enterprises (SMEs) across the continent. This well-established relationship enables them to not only mobilise retail savings but also to act as the essential bridge that helps businesses grow from bank-dependent borrowers into firms capable of accessing market-based financing. Importantly, banks often guide mid-sized companies through their first private placements or market transactions, strengthening financial reporting, elevating governance standards, and enhancing investor communication. Without this foundational role, many otherwise viable firms would never reach the scale required to attract institutional investors. In essence, banks build the pipeline of future publicly financed companies that creates the flow of investable assets that Europe's capital markets need to thrive.

However, the full potential for banks to bolster European capital markets is currently constrained by fragmented regulatory and legal architecture. Disparities in insolvency regimes, supervisory practices, resolution planning, and liquidity requirements create invisible borders, preventing capital, collateral, and balance sheets from moving efficiently across the single market. This fragmentation is not just an administrative nuisance or red tape, it has real consequences for the breadth and depth of Europe's capital markets. Progress towards greater convergence in insolvency, tax, and company law – including initiatives such as a 28th regime – would further facilitate cross-border capital formation and strengthen the effectiveness of the SIU.

This complexity also undermines valuable securitisation activities; banks possess the capacity to originate diverse loan portfolios – from SME loans to consumer credit – and efficiently distribute that risk to long-term investors including insurers and pension funds. When the underlying frameworks are transparent, predictable, and efficient, securitisations free up bank balance sheets, creating lending capacity and fostering crucial cross-sector risk sharing. However, complexity and uncertainty about the regulatory and legal treatment of securitisation affects issuance, saddling unneeded risk to bank balance sheets and limiting the growth potential of vital market-based finance and the contributions that banks can make to it.

Effective delivery of the SIU requires a balanced financial ecosystem.

Even resolution policy, designed to promote stability, inadvertently creates inefficiencies for Europe's capital markets. The parallel existence of MREL rules and TLAC standards creates duplicative layers of loss-absorbing requirements. This dictates how banks structure their funding and issue instruments across jurisdictions. Convergence toward a single, internationally aligned loss-absorbing capacity regime would enhance transparency for investors, reduce structural complexity in bank debt markets, and ease funding frictions. Additionally, the EU's Single Resolution Fund (SRF) holds over Eur80bn in bank contributions, money which could be reinvested in the real economy. Simplifying the SRF and resolution rules would unlock deeper, more liquid,

capital markets while at the same time promoting robust and pragmatic resolution planning and supervision.

Yet, addressing these frictions is only half the equation. Effective delivery of the SIU hinges on a balanced financial ecosystem where banks, capital markets, institutional investors, and other non-bank intermediaries all play distinctive, complementary roles. As market-based finance expands, a consistent approach to risk becomes increasingly important. Upholding the principle of “same risk, same regulatory outcome” prevents risks from migrating to less regulated segments, supports financial stability, and promotes fair competition across financing channels.

In conclusion, banks can accelerate delivery of the SIU by acting as essential links: mobilising savings, supporting market liquidity, structuring risk-sharing solutions, and helping businesses, especially SMEs, access a wider range of funding sources. When regulatory and legal frameworks are truly aligned, this entire financial ecosystem becomes more effective, allowing savings to move more efficiently, risks to be shared more widely, and capital to be directed towards Europe's most innovative and productive opportunities. Overcoming these fundamental challenges is necessary to deliver a meaningful SIU and unlock the potential of Europe's capital markets.



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The role of banks in supporting capital market activities

The European capital markets hold significant potential to complement the foundations of bank financing in supporting the European economy and addressing future challenges. While further easing intra-European financial flows will bring welcome improvements, it is important to recognise that the balance between bank-based and market-based financing is shaped by structural and cultural features that distinguish Europe from the often-invoked US model. Europe has a unique opportunity: to build an integrated financial system that leverages its own strengths and specificities, where European banks have a key role to play in supporting the development of capital markets. A system designed for Europeans, grounded in trust, stability and sovereignty.

Better enabling financial flows requires first leveraging European banks, which massively support the European economy. This must involve unleashing their origination capacities through a better distribution capacity and rotation of their balance sheets. Securitisation is an essential tool to develop in this regard: Europe remains underdeveloped compared to its international peers. It therefore does not benefit from

securitisation's full potential to free up bank capital to support financing needs critical to EU policy objectives, and to create new investment opportunities for the markets, including for SMEs and mid-caps. Co-legislators must pursue their good work by introducing the right incentives for the take-off of a promising and safe European securitisation market.

Today, major banking groups are already contributing to the European markets integration by offering to investors services and products at fair prices. However, European players are put at a competitive disadvantage vis-à-vis their US counterparts which can benefit from a larger integrated domestic market and hence economies of scale. The Banking Union is therefore essential to create a safer but also dynamic European banking sector in capacity to consolidate and provide competitive product and services.

Levering on banks means also respecting the diversity of banking models for the sake of responding to the diversity of needs. The European universal banking model has proven to be particularly critical in supporting SMEs and mid-caps, which represent a true potential for growth and innovation. Universal banks are indeed uniquely positioned to accompany those actors across the entire value chain, whether through financing, capital markets and financial markets services, or advisory support to help them scale up. Such model, like others, must therefore be preserved.

**Europe's success
depends on one thing:
directing its vast savings
toward its future.**

A workable SIU requires to optimise market infrastructures, which, due to fragmentation, generate substantial intermediation costs. The key priority in this regard is a harmonisation of the way these infrastructures operate, and their capacity to invest to keep pace with the current trend on new technologies. This is also the case for banks who need to invest and not miss the opportunity of tokenisation, field in which capital markets are developing fast. That is why competitiveness of the European banking system should be addressed with ambition, to provide European banks with renewed investment capacities.

While leveraging on European champions and better integrating markets in Europe are essential, we

believe this would only bring us half-way towards our common objective of building a more sustainable, more digital, safer and stronger Europe. The money is indeed not missing: according to Eurostat, EU citizens held in 2023 €11,63 trillion in currency and deposits, which are more than enough to bridge the investment gap highlighted by the Draghi report. What matter is how to properly allocate it.

To do so, two things on which banks do not have a grasp are missing: the development of economically viable projects to invest in and a culture of investment to infuse. Unfortunately, progress remains limited on these fronts: between 2019 and 2024, the percentage of investments to EU GDP stagnated. When it comes to financial education, the RIS has completely missed its target in focusing on current wealthy investors and costs for the latter, as if this was the main concern of such clients.

To unlock Europe's full financing capacity, we now need a collective effort. Policymakers must provide the right incentives and a stable framework. Industry must pursue its ongoing efforts to innovate, provide or intermediate financing capacities, and mobilise savings efficiently. Public authorities also have a key role to play by developing a pipeline of viable projects that can channel private capital to Europe's priorities. Only by combining these three pillars can Europe build a resilient, competitive and truly integrated financial ecosystem that serves its citizens and supports its long-term prosperity.



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Banks as catalysts of Europe's Saving and Investment Union

The debate on Europe's competitiveness often focusses on investment gaps, but it should start with savings. European households hold almost €40 trillion¹ in financial assets, more than of which is held in deposits, while annual spending requirements related to defence, climate change, digitalisation and competitiveness reach amount to hundreds of billions of euros. The paradox is clear: there is abundant liquidity, yet scale-ups are undercapitalised and capital markets are fragmented. Bridging this divide requires more than just regulatory coordination between the Savings and Investment Union (SIU) and the Capital Markets Union (CMU). What is needed is an effective transmission channel capable of directing retail capital towards productive investment. Banks are uniquely positioned to perform this catalytic role, linking savers, firms and markets through their distribution networks, balance sheets and structuring expertise.

Therefore, the SIU and the CMU must develop in tandem. Without deep and integrated markets, mobilising savings would shift liquidity into shallow investment channels. Similarly, expanding capital markets without broad household participation would restrict their size and resilience.

In practice, the CMU may need to accelerate in order to provide a credible, liquid and cross-border platform on which retail and institutional investors can trade efficiently. The contrast with the United States is instructive. Over the past decade, corporate financing through equity and bond markets has averaged close to 8% of GDP annually in the US, compared with around 3% in the European Union². In 2024, US market capitalisation on the stock exchanges reached approximately 270% of GDP, versus around 73% in the EU, underscoring persistent gaps in liquidity, investor diversity and market scale.

Fiscal incentives can influence behaviour. In Canada, the introduction of the Tax-Free Savings Account in 2009, has led to over 18 million holders and more than C\$619 billion in assets³, demonstrating the potential of policy design to encourage participation in long-term investment. In Quebec, regionally anchored funds supported by tax measures, including models comparable in spirit to the CRCD⁴ approach, have channelled retail savings towards SME financing. However, incentives alone are insufficient. Greater retail participation requires sustained efforts in financial literacy so that households can understand the available instruments, the associated risks and whether they are suitable. Financial institutions play a central role in this process. Through advisory networks and digital platforms, they can convert policy incentives into informed investment decisions and boost confidence in market-based finance.

Savings mobilisation and market integration must develop in tandem.

For SMEs, financing should be viewed as a process of progression rather than as an either/or choice between banks and markets. Firms typically start with traditional bank lending before moving on to private debt or hybrid instruments, and then eventually accessing junior and main equity markets. Financial institutions facilitate this process by providing local knowledge, risk assessment and governance support. In Canada, Desjardins Capital exemplifies this model, offering debt and equity financing to hundreds of businesses and supporting them through different stages of development as they transition towards market-based funding solutions.

Well-functioning junior markets are an integral part of this ecosystem.

Canada's TSX Venture Exchange acts as an incubator for growth companies, but it relies on the presence of institutional investors willing to absorb early-stage risk. Pension funds and insurers can play a similar stabilising role, including through co-investment frameworks that mitigate concentration risk.

Canada is an example of how strong banks and active capital markets can coexist within a coherent policy framework. Securitisation has been employed to provide infrastructure rather than as an opportunistic source of funding. The Canada Mortgage Bond programme shows how standardisation and credible risk sharing can provide stable funding.

None of these mechanisms will achieve the desired scale without deeper integration. Divergent insolvency regimes, tax issues and the incomplete banking union continue to fragment capital allocation. Ultimately, market depth depends on the single market's ability to efficiently distribute risk across borders. If savings mobilisation and capital market integration advance in tandem, banks will be able to connect households with investment opportunities and firms with long-term funding. This would transform Europe's liquidity from dormant wealth into a strategic foundation for growth and competitiveness.

1. *Households - statistics on financial assets and liabilities in 2024*
2. *Slow Growth in Europe's Capital Markets, Competitiveness Gap Remains*
3. *Canada Revenue Agency*
4. *Capital régional et coopératif Desjardins*