

## A Savings and Investments Union to unlock the potential of the Single Market

Enhancing financial integration within the Single Market is more than an objective in itself, it has become a prerequisite to achieve the broader goals of the EU. Consequently, we must strive to develop a **Savings and Investments Union** in the framework of the Single Market.

Despite its status as one of the world's foremost economic powers, the EU's share in global capital market activities - including equity issuance, total market capitalisation, and corporate bond issuance - does not align proportionately with its GDP. This discrepancy highlights the critical need for **a more integrated and robust European financial market able to channel savings towards investment needs**, which is essential for harnessing the full potential of the EU's economic capabilities and supporting its position as a leading global economic power.

The European Union is home to a staggering 33 trillion euros in private savings, predominantly held in current accounts (34.1%). This wealth, however, is not being fully leveraged to meet the EU's strategic needs; **a concerning trend is the annual diversion of European resources towards the American economy and US asset managers**. This phenomenon underscores a significant inefficiency in the utilisation of the EU savings, which, if redirected effectively within its own economies, could substantially aid in achieving its strategic objectives.

To rectify this situation, there is an urgent need for the development of an attractive and efficient financial market within the EU. A well-functioning Savings and Investments Union would not only retain these vast pools of private savings within Europe but also make investing in the continent more appealing for both EU residents and foreign investors. The drive for greater integration of European financial markets is a clear imperative, aimed at mobilising these resources to support and fuel the EU's ambitions. This strategic approach is vital for enhancing the EU's financial landscape, ensuring that it can harness its substantial economic resources to their fullest potential, thereby supporting its role as a key player on the global stage.

In the last years, attempts to address this topic have revolved around the much discussed project of the Capital Market Union. Launched in 2015 and revamped with the 2020 Action Plan, the project represents a significant step forward in achieving capital markets integration, but it fell short of translating into concrete and tangible results on the ground, mainly due to the absence of a strong political mobiliser going beyond the intrinsic financial markets dimension. We therefore need to find new impetus and political energy to step up our common efforts and achieve meaningful progress, towards a broader Savings and Investment Union. **Financial integration within the Single Market will remain elusive unless it is clear that such integration serves not merely the finance sector itself**, but is crucial for financing common objectives that would otherwise be unachievable.

### A new political mobiliser to leverage private resources: the green transition

**The fair green and digital transition stands out as the most suited catalyst for transformative change.** The European Commission itself estimates that *“additional investments of over €620 billion annually will be needed to meet the objectives of the Green Deal and RepowerEU. By far the greatest part of these will have to come from private funding”*. A tangible illustration of this financial challenge is evident in the ambitions of the Net Zero Industry Act (NZIA). The NZIA aims for the EU to produce at least 40% of its annual

requirements for strategic clean technologies by 2030, a goal that necessitates substantial investment.

However, there is a funding gap not just with respect to amounts, but also with respect to the type of funding that is available. Public funding is not always best suited to meet the financial needs of the sector, especially when it comes to the development of new technologies rather than investment in improving infrastructure. Few public funding instruments target the three main funding constraints green-tech hardware scale-ups face: equity funding for growth (R&D, expanding operations, hiring talent), project finance for first of a kind deployments, and debt financing for commercial rollouts without diluting ownership.

**The imperative to meet the European Union's ambitious green targets cannot be overstated, as the future of the EU hinges on this commitment.** The consequences of failing to act are multifaceted, encompassing environmental, economic, and geopolitical dimensions. Therefore, it is crucial to stress that without a unified financial framework that encourages the flow of investments into sustainable and innovative sectors of the real economy, the ambitions for a green, digital, and fair transition is unattainable.

Firstly, there exists a substantial **opportunity for industrial leadership** in the transition to a green economy, that the EU can't miss. The International Energy Agency estimates that the global market for key mass-manufactured clean energy technologies will be worth around \$650 billion a year by 2030, more than three times today's level. The related energy manufacturing jobs could more than double in the same period. The UE's net-zero ecosystem was worth over €100 billion in 2021, doubling in value since 2020

Secondly, the **impact of climate change** within the EU has been deeper and faster than expected. Climate-related extreme events have risen between 1980 and 2022, causing 220,000 deaths and €650 billion in economic losses over the period in the EU, of which about €170 billion over the past 5 years only. The cost of inaction is high: by 2031-2050, the cumulative additional GDP cost of a pathway leading to worse global warming could amount to €2.4 trillion in the EU, compared to the costs under a pathway compatible with the 1.5°C objective of the Paris Agreement.

Lastly, the EU's credibility and **international role** are at stake. The Union has endeavoured to guide its partners towards ambitious environmental targets. However, failing to meet its own green targets would severely undermine the EU's position as a global environmental leader, jeopardising its ability to influence international climate policy and action.

Therefore, **creating a direct connection between the funding of the fair, green, and digital transitions and the development of the Savings and Investments Union is crucial.** On one hand, enhancing financial integration within the Single Market emerges as a pivotal strategy to fulfil our investment needs, which, if unmet, could lead to social and political backlash. On the other hand, placing a strategic emphasis on achieving the fair, green, and digital transitions can catalyse the necessary political momentum to establish an ambitious Savings and Investments Union. This dual approach not only aligns with our strategic objectives but also reinforces the Single Market as a dynamic force capable of mobilising significant investment. By doing so, we leverage the Single Market's power to address our critical funding challenges while simultaneously advancing towards a sustainable, inclusive, and digitally empowered future.

## **Creating an ecosystem for European investments**

There are three structural areas in need of urgent action to create a thriving Savings and Investments Union within the Single Market: the **supply of capital**, the **demand for capital**, and the **institutional framework and market structure governing the movement of that**

**capital.** It is imperative that any reform package considers all three areas together. They form integral parts of the broader ecosystem, and therefore cannot be addressed in isolation. They require joint action from the EU institutions, Member States and market participants.

Pursuing both technical fixes - that are theoretically implementable in the relative near-term - and longer-term structural efforts in parallel is critical. Although they would, in most cases, be tasked to different bodies and authorities, their combined implementation is critical to achieving the final target in the long-term. Here below are tools and instruments, which could be part of the Savings and Investment Union.

**Funding by institutional investors:** European institutional investors and particularly pension funds are much smaller and play a lesser role than in other advanced economies. This depends on the national fragmentation and on different national welfare systems and pension schemes. **It is proposed to create an auto-enrolment EU Long-Term Savings Product.** Compulsory public pension fund systems are social and political decisions by Member States and only a few have chosen systems that allow for long-term accumulation of capital. However, collective and individual long-term saving plans can be developed at the EU level. The success of any long-term savings plan will depend on tax incentives given by Member States individually, regrouped through reinforced cooperation or by unanimity. Based on an objective assessment of its underwhelming performance, **simplifying and upgrading the Pan-European Personal Pension Product** could be a viable option for the future. This may involve introducing an auto-enrolment clause. The creation of a workplace savings product could also be a possible venue. Such financial products could take the form of an auto-enrolment EU Long-Term Savings Product, that is valid across companies and borders within the Single Market.

However, it is important to note that pension funds are not the only long-term institutional investors that can make a difference to capital market development. Notably, insurance companies are important players – total financial assets by insurance companies in the euro area are substantially larger than those of pension funds. While their investment models differ, policies to help allocate savings towards their most productive use must therefore take a broader approach, also considering insurance corporations and the adequacy of the frameworks that govern their investment mandates. For example, increasing the coherence between Member States' frameworks (and the existence of such frameworks) for **approving internal models to calculate capital requirements for large insurance groups could help unlock more insurance company capital** by tailoring the risk profile to each undertaking within the group. This could be achieved by enhancing supervisory convergence and fostering collaboration among national authorities, for example through the establishment of joint supervisory teams with the relevant European national supervisors and EIOPA. Banks may also play a role as investors in companies' equity and their specific capital requirements framework could be reassessed to make it easier.

These efforts could be completed by some accompanying measures, such as **strengthening financial literacy** and creating a **harmonised European framework for recognising qualified investors**. One possible solution could involve integrating financial literacy into school curricula. A three-level framework of institutional, qualified individual and retail investors, defined in a coherent way across the EU, would help focus efforts for capital market integration and promote cross-border investment in the Single Market.

**Channelling retail savings into the real economy:** European household savings have reached enormous amount. Most of these savings are parked on banks' deposit or invested in mutual funds often managed by large international funds, particularly US fund. The EU lacks indeed an effective instrument to channel retail savings into the European real economy. Particularly European SMEs struggle more or pay higher prices to find equity and debt investment particularly vis-à-vis their US counterparts. In 2015, the EU introduced the

European Long-Term Investment Fund (ELTIF) and recently revised it. The reform came into effect earlier this year. ELTIF is a regulatory framework which aims to grant private savers and non-professional investors direct access to alternative funds, including private equity, private debt funds, infra and other long-term investment schemes. The reform, which brings simplifications for asset managers and distributors, is expected to provide momentum to this instrument. Hitherto, ELTIF has gained little traction, with fewer than 100 funds distributed over 8 years, primarily in France and Italy. **The introduction of a EU-wide scheme allowing private savers to invest in alternative funds offers several benefits:** i) It provides SMEs and other non-listed assets with much-needed resources, particularly in markets traditionally underfunded in Europe; ii) It democratizes investment, opening up possibilities for retailers to access investments previously exclusive to professional investors and high-net-worth individuals; iii) It contributes to the creation of a European market for alternative assets by feeding resources into European alternative asset managers and therefore contributing to the CMU. However, it is improbable that this instrument will achieve mass-market status and offer significant funding for European companies without adequate tax incentives. Illiquidity indeed needs somehow to be compensated. **We suggest launching a new European scheme which could integrate a national tax incentive with the ELTIF.** The exact amount of the tax benefit could be left to be determined by each Member State, but it should be sufficiently attractive. The EU legislation could establish a minimum threshold for the incentive to ensure its effectiveness.

**Public sector guarantees:** We therefore propose a specific facility through which the EU can support the banking sector in funding the climate transition. The EU has already supported private investment in the past, with the European Fund for Strategic Investments (EFSI, also known as the Juncker Plan). In 2022 the EFSI was replaced by InvestEU, which has a similar size and scope (33.7 billion euros in guarantees to support around 370 billion in private investments by 2027). At the same time, national governments have introduced similar guarantee schemes to boost private investment. **In order to support sustainable private investment, the EU should launch a specific European Green Guarantee (EGG).** The European Commission and the EIB can develop the framework and raise the financial resources for a EU-wide scheme of guarantees to support bank lending to green investment projects and companies. As for the EFSI, the EIB would then evaluate the specific proposals from commercial banks and/or national financial institutions and award the guarantee. With that guarantee, European lenders would be able to provide the necessary funding. It should be explored how the guarantee could be extended to European private debt funds. With a resource multiplier around 12 (like the original EFSI), between 25 and 30 billion in guarantees can support 300-350 billion in investments. European banks would play the key role of allocating resources to the green companies and thanks to the EGG they would be able to neutralize the so-called “green transition risk”, which prices the inherent risk of lending to green companies.

**Public Private Partnerships:** In the face of constrained public budgets, private capital can also be key to developing new green (transport, energy etc etc), and digital infrastructures. This requires unlocking the substantial liquidity available among institutional investors, such as pension funds and life insurers. Infrastructure assets, associated with proper regulatory frameworks, offer to patient capital stability and predictability of revenues. **The European PPP market remains relatively small. Therefore, some reform is necessary:** First of all, it requires a shift from in-house models (including state-owned enterprises) to contractual and/or institutional public-private partnerships, mainly through the adoption of concessions and licenses. Moreover, it requires strengthening regulatory frameworks to ensure a balance between affordability for taxpayers and profitability for investors and it implies to overcome a certain bias against PPPs from a fiscal standpoint. Forms of blended finance should be more largely used, with tranching in accordance with different risk appetite. Furthermore, mitigation mechanisms could be used to ease demand risks, particularly in green transport infrastructure.

The Commission should propose a comprehensive policy framework and advocate it with public authorities and investors. Only in this way, European pension funds and insurance companies could be extensively involved in the financing of new infrastructure. In this sense, **the regulatory framework for insurance companies and pension funds should be reviewed** to assess whether there are changes to be introduced to facilitate their involvement in PPPs.

**Securitization:** Securitization acts as a unique link between credit and capital markets. In this sense, the securitization market offers significant potential. Increasing its utilization brings two key benefits: i) broadening and diversifying the pool of assets available for investment, and ii) unlocking banks' balance sheet capacity to facilitate additional financing. Moreover, the adoption of green securitization, whether through securitizing green assets or directing securitization proceeds towards green financing, holds promise as a significant contributor to the transition towards sustainability. Therefore, we advocate for reforms in the European securitization framework to enhance its accessibility and effectiveness.

### **Connecting the real economy with European citizens' savings**

In order for capital to be efficiently deployed in the Single Market, there must be a corresponding demand for it. This entails raising awareness among companies and entrepreneurs about the availability of capital market financing, as well as implementing rules and regulations conducive to its use. In recent years, the number of companies accessing public equity has decreased, as the pool of companies listed on the EU's main regulated equity markets has been shrinking.

A pivotal structural measure involves establishing a **single entry point to public capital markets for small and mid-cap companies**. It is imperative to establish a specialised section of the capital markets tailored to small and mid-cap companies, with simplified listing requirements proportionate to their age, size, and ownership structure, serving as a preparatory phase prior to transitioning to the main segment. Encouraging collaboration among key EU stock exchanges to pool their small and mid-sized segments, thereby creating a unified IPO gateway to EU public markets for these companies before they transition to their chosen EU stock exchange's regulated market, is also paramount. Granting direct supervision of this joint venture to ESMA will streamline the regulatory and supervisory framework of such a unified IPO access point.

This structure can be complemented by several accompanying measures. Specifically, initiating a campaign aimed at **raising awareness about the advantages (along with the risks) of capital markets** is crucial. This serves as a vital bridge between supply and demand, involving a diverse range of stakeholders such as businesses, banks, professional investors, and retail investors. Furthermore, alongside investor awareness, prioritising the education of financial advisors and entrepreneurs is imperative. Special attention should be directed towards **fostering a culture of capital market utilisation among SMEs**. Additionally, a clear strategy to bolster private equity and venture capital is essential. Sound public capital markets necessitate a robust surrounding ecosystem, including strong private capital markets - particularly venture and growth capital - to provide funding for companies across their lifecycle.

### **Fostering the creation of an EU Stock Exchange for Deep Tech**

Deep Tech companies use cutting-edge science and technology like Artificial Intelligence, Quantum technology or Biotechnology, to bring new products and services which unleash mega-waves of innovations.

**Deep Tech start-ups have a very specific profile:** they are high risk, with long term Return on Investment and, if successful, high gain companies. As they come with a revolutionary

product or service, **there is no or little market for it to start with and no guarantee of a breakthrough.** Deep Tech is therefore characterised by an above-average proportion of bankruptcies. In some cases, these companies have to provide their services for free (e.g. Open AI ...) or at a loss for quite a while to acquire a larger number of users and sufficient customer loyalty. Successful Deep Tech start-ups eventually become companies whose shares offer the highest gain. The new ecosystems built around them contribute to current US economic performance and explain for a large part the growing gap between the US and EU.

They are also capital intensive. Typically, to develop their idea for a product or service, they turn to (national or EU) public funding and Venture Capital for pre-seed and seed money. Once their product or service is viable, they need to raise a lot more money very fast to stay ahead in the race, e.g. by completing quickly large scale clinical trials in the case of biotech, hiring staff for the production phase, covering marketing and public relations costs, etc. This is often done through Initial Public Offering (IPO), i.e. when the company sells shares to the public. It is the moment when founders and capital venture cash in on their investment.

At IPO stage, many EU start-ups are confronted with the following problems. Firstly, they realise that no national Stock Exchange in the EU is large enough to raise the capital they need at speed and in a cost-effective way compared with the USA (where pools of long-term capital are much larger and where NYSE is competing with NASDAQ by offering attractive listing fees). Secondly, they see that market valuation – amount investors are paying above the ‘floor price’ set to buy new shares – in EU countries is much lower than in the USA (often up to 40% lower).

In the EU, due to Basel II Regulations, high risk/high gain asset classes with high liquidity risk are indeed down-prioritized as they entail a ‘penalty’ in the form of more capital required on the balance sheet to hedge for liquidity risk. Moreover, national stock exchanges in the EU operate under the oversight of national authorities, which makes further integration difficult, leads to regulatory gold-plating and lack of specialisation. **National rule books and oversight are not adapted to Deep Tech stocks which are handled similar to classical industries on the basis of revenues and profits.** The ongoing consolidation among stock exchanges in Europe can enlarge the pool of capital but cannot remedy the specific problems affecting Deep Tech start-ups.

In order to strengthen EU strategic autonomy and economic security agenda, the EU should **facilitate the creation of an EU Deep Tech Stock Exchange thanks to specific rules and supervision.** Because of their specific profile, investing in deep-tech startups is not for small investors or retail banking, but for pension funds and large asset management firms. Indeed, the latter can take high risk and wait for long term return. It means that a different (less risk adverse) EU prudential regime with supervision at EU level could be envisaged for these investments above a certain threshold.

### **Institutional framework and market structure**

Guided by the principles of the Single Market, the European Union has established a legal and regulatory foundation that facilitates the free movement of capital and financial services, entrusting market dynamics to leverage these newly forged opportunities. However, it did not prescribe specific structural goals to shape the competitive landscape of the ecosystem, aimed at enhancing market-based financial integration. This approach has led to varied outcomes across several sectors. On one hand, integration efforts have sometimes failed, giving rise to market fragmentation shielded by national prudential or investor protection regulations. This fragmentation hampers potential productivity improvements and the emergence of significant market entities capable of offering more competitive services and prices. On the other hand, certain sectors have seen the formation of oligopolies or duopolies, such as in the realms of rating agencies, data providers, payments, and auditing services. Often, these concentrated

markets are dominated by entities whose primary market is outside the Single Market, placing them in a position of strength. Consequently, the European Union has increasingly found itself enacting legislation aimed at effectively regulating these non-EU financial market entities. This regulatory approach, while necessary, has inadvertently raised barriers and increased the challenges for new EU market entrants, making their emergence more costly and arduous.

Within the current EU financial supervisory architecture, national regulators and supervisors form the core of the entire ecosystem. This central position often leads to the protection of national interests, including financial centres through local supervisory measures and investor protection rules. Significant progress has been made toward developing a sophisticated Single Rule Book. However, existing barriers or breaches in achieving a level playing field are evident through variations in national supervisory intensity.

A crucial structural initiative involves **advancing towards more comprehensive and integrated supervision of financial markets**. While stronger regulators and supervisors alone cannot create the Savings and Investments Union, the absence of a robust and standardised framework can impede further integration. Establishing a single, centralised supervisor in the EU at this stage may be premature, potentially overlooking the benefits of proximity to the diverse local financial markets and economies within the EU. Conversely, relying solely on national-level supervision is also inadequate. The system must evolve similarly to the banking sector's single supervisory mechanism, where the ECB's Single Supervisory Mechanism (SSM) directly oversees significant banks, while national supervisors manage less significant ones. Concurrently, a **strengthened European Securities and Markets Authority (ESMA), in collaboration with National Competent Authorities**, could assume more supervisory responsibilities for major entities based on criteria such as size, cross-border activities, and their systemic importance, encompassing trading venues, issuers, asset managers, and other financial market participants.

Considering previous endeavours, the progression towards more integrated supervision within the securities domain entails **gradually enhancing the direct supervisory powers of ESMA, adopting a bottom-up strategy**. This approach opens up various pragmatic pathways. One option involves shifting the supervision of the most integrated markets or significant market players to ESMA, particularly when supervision proves more effective at a supranational level, such as with equity markets. Another route requires the European Commission to assess market integration for each Directive or Regulation moving forward. This assessment aims to pinpoint where supervisory efficiency is most advantageous and suggests a data-driven handover to ESMA whenever a Directive or Regulation undergoes review. In instances where market integration is less apparent, the mutual recognition and convergence of supervisory practices should suffice to ensure the efficiency of the supervisory function.

Such transfer of powers raises the question of the adequacy of the **governance and decision-making processes of ESMA**. Increasing ESMA's direct supervision should be coupled with a change in the governance system. Currently, the Board of Supervisors and the Management Board are composed of national competent authorities, plus the Chairman and some non-voting members. This composition does not necessarily guarantee the efficiency of ESMA's decisions or ensure the necessary degree of independence, as it embeds the interests of national authorities. This governance structure may be a factor that makes it more difficult to take action in sensitive areas, particularly with respect to Article 17 enforcement action. The mandatory review of the European Supervisory Authorities (ESAs) includes in fact: *"the impartiality, objectivity and autonomy of the authority"*. When the ECB was created, the choice was to add six 'other' members to the Governors of Central Banks in the Governing Board and in the General Council: the six independent members constitute the executive board of the ECB. A similar choice should be made for the ESAs. The Management Board should be composed of six independent and highly-qualified individuals, including the Chair,

appointed by a qualified majority of the Council and an opinion of the European Parliament. The Board of Supervisors should be composed of the heads of the national competent authorities plus the 6 members of the Management Board.

The framework could be completed by some additional measures, such as **ensuring legislative and regulatory efficiency**. The Single Market suffers from a misuse of the hierarchy of norms permitted by the Treaty. Mistrust between Member States often leads to an excess of details in ordinary legislation, which could be more appropriately addressed through more flexible delegated or implementing acts. Other regions can therefore adapt their legal and regulatory framework to financial innovation more quickly than the Single Market. However, the EU's legislative tools offer the potential to create a more competitive ecosystem, aligned with Treaty objectives. One potential approach would involve incorporating into the Inter-institutional Agreement on Better Law-Making an obligation for the Commission and the two co-legislators to consider, prior to any legislative proposal and discussion related to the Savings and Investments Union, the objectives of fostering a self-sufficient, diverse, and competitive ecosystem, along with a competitiveness test ensuring an appropriate balance between ordinary legislation and delegated or implementing acts, thereby providing the flexibility needed to enable rapid competitive responses to innovation within the Single Market.

Priority in the policy agenda should also be given to **promote greater harmonisation in interpretation of rules and standards**. The interpretation of European rules - especially Directives that are not straight away applicable, but even Regulations - differ, not only between different national legislators, whose task it is to transpose them, but also by the courts in litigation. This leads to a fragmentation, in spite of a framework of rules that is or should be unified at the European level.

**Harmonising insolvency regimes** is often rightly cited as a means to promote cross-border investment and market access in the EU, as it substantially reduces administrative and legal costs associated with insolvency proceedings. However, there is an urgent need to take action to overcome national short-sightedness.

While it is difficult to integrate all aspects of the securities markets, there is scope to focus on certain areas, such as clearing and settlement. There are 18 clearing and 21 settlement markets in the EU, mainly owned by national stock exchanges, against one company for each of the two markets in the US, mutually-owned by the utility-like Depository Trust and Clearing Corporation (DTCC). Judging by the US experience, where stock exchange competition is strong, it seems that there is no apparent need for competition in the clearing and settlement markets, as long as there is fair and open access for all actors, proper governance and sufficient incentives for innovation. Consolidation appears easier now that the Target 2 Securities (T2S) platform managed by the Eurosystem is fully operative and allows swift settlements. This would bring benefits in terms of economies of scale, simplicity and lower costs. Consolidation also requires **addressing the significant barriers that persist in the post-trading landscape**, underscoring the importance of enhancing the coordination of post-trading infrastructure regimes, or working towards a common regime. Despite the establishment of T2S, many barriers identified in the two Giovannini reports in 2001 and 2003 continue to pose significant obstacles to cross-border investing and capital raising. Specifically, it is crucial to better harmonise differences in rules and practices pertaining to withholding and transaction taxes, the cross-border exercise of shareholder rights such as participation in general meetings, effective shareholder identification by issuers, and market insolvency procedures.

## Single benchmarks for European financial markets

### **Combining existing EU emissions for a stronger Savings and Investments Union**

One fundamental aspect of EU integration in general, and financial market integration in particular, is the lack of a common European safe asset with predictable and certain availability. Currently, EU financial markets rely on national sovereign bonds as benchmark assets, which means that relative changes in national bonds values can result in disruptive capital flows and the deterioration of companies' balance sheets.

Putting bonds issued at the EU level firmly at the centre of the EU's financial architecture would be crucial for the stability and integration of financial markets and for strengthening innovation and growth across the whole EU internal market. In March 2024, there were for the first time in the market more than EUR 1tn of European (supranational) bonds, issued by the European Commission, the European Investment Bank and the European Stability Mechanism/European Financial Stability Facility. These are all triple-A assets, fully backed one way or another by European sovereigns. They enjoy significant demand from global investors, including central banks, governments and sovereign wealth funds. However, while these supranational bonds are close substitutes, they are traded separately, which hurts their pricing given the relative lack of liquidity coming from the still limited and fragmented issuance. Issuances at EU level will increase significantly in the very near future as the adopted NGEU and EIB programmes are implemented.

**Making such issuances fully homogeneous would provide a liquid risk-free collateral and allow diversification of exposures.** Such a common benchmark would level the financial conditions among operators in the Single Market, whose costs currently depend on which sovereign bond is used as reference for their funding, and will facilitate the pricing of risky financial products which are necessary to support innovation and the financing of the twin transitions and of Europe's security. Widespread availability of single EU supranational bonds will also help the transmission of the single monetary policy and reduce constraints in the use of ECB's tools. Finally, being a credible store of value, they would incentivise holdings in euro by foreign central banks, fostering the euro's international role, with positive geostrategic implications.

**Existing and future issuances of the different EU institutions could be made fully homogeneous by marketing them under a single name, while still backed by their own credit and capital structures.** The issuance could be done either by one of the existing institutions on behalf of the others, or by a newly created EU agency reuniting existing issuing departments of the EU institutions. The merging of the SURE and NGEU issuances, despite their different credit structures, provides a concrete and positive example that can be built upon. The benefits of moving towards a 'single issuance for all EU institutions' approach could become even more visible were the funding of European public goods such as digital, energy or defence infrastructures and equipment, or the reconstruction of Ukraine, to be made through borrowing by EU institutions. This would render the supply of EU bonds not only more significant but also steadier, making them the main instrument of reference for the ECB.

### **Bridging borders and boosting efficiency: a Digital Euro**

By providing a secure and privacy-compliant pan-European payment infrastructure offering central bank digital money, the digital euro complements the Union for savings and investments goals. As payments are becoming increasingly digital, **banknotes and coins - which are declining in use, and are the only current forms of central bank money with legal tender available to the general public - alone cannot support the EU's economy in the digital age.**

After 30 years from the establishment of the Single Market and 25 years of a single currency in the euro, there is currently no European digital means of payment covering all Euro area Member States that enables both citizens and businesses to make digital transactions seamlessly within and across national borders. International payment schemes operated by non-European actors facilitate 69% of all digital transactions in the euro area, with 13 out of 20 euro area countries relying entirely on them due to the absence of a domestic payment scheme.

The current situation creates significant challenges for the convenience of citizens and businesses, undermines the resilience of our payment systems, and directly threatens cross border transactions in the Single Market. **Without a central bank digital currency supporting the European Single Market, the rise of new global systemic actors in the payment market risks marginalising European banks, disrupting their vital customer relationships, and weakening their overall competitiveness.** Reliance on foreign entities compromises the system's resilience, potentially exposing it to manipulation and disruption beyond the reach of European regulation.

**The digital euro would overcome many of these shortcomings as it represents a paradigm shift for retail payments within the Euro area.** It would offer to European citizens and companies the freedom to pay (and be paid) with a single, public, secure and widely accepted public solution throughout the entire euro area. Unlike existing payment methods, it would cover everything from online transactions to in-store purchases and peer-to-peer transfers, both online and offline. It would build a new European infrastructure able to support innovation, as private providers can access it to innovate and develop new value-added services for their customers. Furthermore, it would empower Europe to independently develop and manage digital payment solutions, thus reinforcing its strategic autonomy. In particular, thanks to the use of European technology and infrastructure, such as the synergies that could be created with the future European digital identity wallets, the digital euro would guarantee that financial transactions data stay within the EU's jurisdiction, complying with the highest standards of innovation and privacy.

**The groundwork for the digital euro's success is in place. It's imperative for the ECB and European legislators to rapidly advance the project.** The ECB should work with all stakeholders in order to make sure that the technical realisation of this project is a win-win for existing actors, consumers, financial institutions and other relevant actors. With the Commission's proposal in June 2023 and the ECB's preparation phase, acceleration is critical. A digital euro must be a reality before 2027. Delays will only deepen the Single Market's vulnerabilities and prevent Europeans from reaping the digital euro's benefits – lower costs, increased competition, and a more resilient financial system.

## Road map

### By 2025

- Launch an EU-wide auto-enrolment Long-Term Savings Product in order to stimulate retail investments, leveraging tax incentives from Member States and enhancing the Pan-European Personal Pension Product for broader market applicability.
- Harmonise Member States' regulatory frameworks to allow large insurance groups to tailor capital requirements to the specific risk profile of each entity, thus unlocking additional capital.
- To support private investment in sustainability, create a specific European Green Guarantee (EGG). The European Commission and the EIB could develop the framework and raise the financial resources for a EU-wide scheme of guarantees to support bank lending to green investment projects and companies.
- Revise the securitization framework to simplify the utilization of this instrument, crucial for diversifying asset investment and releasing banks' balance sheet capacity. This, in turn, will enable bank to offer additional financing.
- Implement a single access point for public capital markets, specifically designed for small and mid-cap firms, to consolidate their market segments via key EU stock exchanges, simplifying their transition to main market segments under ESMA's direct and streamlined supervision.

### By 2026

- In order to channel ordinary citizen savings into the financing of the real economy, launch a new European scheme which combine the European Long Term Fund (ELTIF) scheme with attractive national tax incentives.
- Progress toward a cohesive and comprehensive supervision of financial markets by adapting a model similar to the banking sector's supervisory mechanism, where a strengthened ESMA, in collaboration with National Competent Authorities, could assume more supervisory responsibilities for major entities.
- Establish a unified European safe asset by centralising EU-level bond issuances under a single name, ensuring stability and homogeneity in the financial market.

### Throughout the next legislature

- To finance green infrastructure process and attract capital from pension funds and insurance companies, promote the public private partnership (PPP) instrument by strengthening regulatory frameworks and ensuring a balance between affordability for taxpayers and profitability for investors.
- Advance the implementation of the digital euro to strengthen EU's financial autonomy and improve the retail payment infrastructure.