



Q&amp;A

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### Strong capital markets as a key to resilient economy

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*Europe needs a well-functioning capital market even more than ever. The Union therefore has to quickly address problems on several levels – from the creation of attractive investment environment, through simplification of rules and clarification of existing regulatory ambiguities, to promotion of equity culture among Europeans. Relaunching the Capital Markets Union project under the label of Savings and Investments Union is definitely a good way forward.*

Almost each day Europe receives a new impetus to quickly deal with all its long known structural challenges. Savings and Investments Union (SIU), the most recent strategy to foster citizens' wealth and economic competitiveness, is a good plan to increase the long-term growth of the EU economies. For the Union it is crucial to mobilise EU savings and encourage deeper integration of capital markets.

Achieving this goal requires the creation of a unified, strong capital market that would support the region's economic resilience, and generate enough capital for Europe to become competitive again and consolidate its economic influence around the world, regardless of geopolitical tensions. A deeper capital market would provide alternative sources of funding, reducing dependency on banks and enhancing preparedness for financial crises. It would also help channel funds into long-term projects such as energy transition, digitalization, and infrastructure, or the recently acknowledged defence needs.

#### A more pragmatic approach

Building on the achievements of the Capital Markets Union, the SIU is a significant initiative to strengthen EU competitiveness as outlined in the Competitiveness Compass. Compared to the top-down legislative-heavy CMU action plans, the new strategy adopts a more pragmatic and bottom-up approach. The SIU should provide guidance, incentives and opportunities to exchange best practices in order to encourage reform in Members States in areas like taxation of equity investment, insolvency law and pension

systems. Rather than relying solely on regulatory initiatives, the EU should coordinate and encourage bottom-up market development, including strengthening cooperation between market infrastructures, encouraging pan-European investment funds or developing financial education initiatives. A hybrid approach—balancing EU-wide policy frameworks with national-level flexibility—is crucial for unlocking the full potential of European capital markets.

#### Reducing market fragmentation

Harmonization of rules and practices in the EU capital markets, both legally and in terms of mindset, is a critical enabler of the new strategy. To achieve progress, the SIU strategy must promote an open and competitive market. This will strengthen capital flows, create a resilient single market and drive economic growth. Fragmentation limits economies of scale, making EU capital markets less competitive compared to the global ones. It discourages cross-border investment, reducing liquidity and deepening reliance on national financial systems. It also raises transaction costs and compliance burdens, making it harder for companies to raise capital outside of their home countries.

Eliminating barriers is not the only driver of progress and it should be complemented by other measures. Consolidation of market infrastructure does not make much of a difference from an investor's point of view – it doesn't really matter how many CCPs or CSDs there are in the EU. What we should focus on are measures increasing the retail investor participation – measures incentivising investors to move at least part of their savings to the capital market, but also measures to build trust in market institutions.

Recently, there are good examples of reducing market fragmentation, especially in terms of access to market data. The recent MiFID review introduced regulations on consolidated tape in the EU which should significantly ease the flow of information. We now need to implement the new legal framework, but once it is operational it has a potential of making a real difference for investors.

### Learning from the past

Savings and Investments Union strategy is an attempt to fix past mistakes and to create better channels to jointly learn from each other, while not necessarily always applying one-size-fits-all solutions.

A good example is the focus on securitization, which is underdeveloped in the EU. It is thus limiting banks' ability to offload risk and recycle capital into new lending. The new strategy aims to simplify the rules of securitization in order to improve transparency and attractiveness, and encourage high-quality securitization markets for mortgages, SME loans, and infrastructure.

We should also learn from the failed attempts of recent years as was the case of the pan-European Personal Pension Product (PEPP), though in Europe we do have few great examples how it can successfully work. For example, in Poland the Employee Capital Plans (PPK) program has been operating since 2018. This program, using auto-enrolment and offered at the workplace, has been built after assessing the best practices and mechanisms from similar foreign programs and adapted to Polish realities.

### Focus on Europe

Diversification beyond the EU is not necessarily essential for the long-term returns to increase. The EU itself presents significant opportunities for growth, particularly in sectors like technology, health, energy, defense, and infrastructure. By focusing on these areas, the EU can generate solid and stable returns while strengthening its economy. Furthermore, investing within the EU reduces political risks and aligns better with regional economic policies. Therefore, the EU's internal market has considerable potential to meet the dual objectives of boosting retirement returns and financing the EU economy without depending heavily on external diversification.

Mario Draghi pointed out in his report that EU capital markets are undersupplied with long-term capital relative to other major economies. In 2022, the level of pension

assets in the EU was only 32% of GDP, while total pension assets amounted to 142% of GDP in the US, and to 100% in the UK. The huge analytical work that has been done in the past months by Draghi, and the other two report by Letta and Noyer as well as the statements by the Eurogroup, the ECB and the European Council, has generated a rich set of proposals that should be taken into consideration while implementing the SIU.

Boosting long-term investments is one of the most important objectives of the SIU strategy. Long-term saving products offer a much-needed solution to address the growing pension gap in the EU's ageing society, but also channel households' savings to productive investments. EU's economy has huge potential to achieve that, but it cannot be accomplished without building consumer trust and efficient framework including tax incentives.