



# The Capital Markets Union Opportunity for CESEE Countries

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# CMU promise for the EU

- More efficient capital allocation
- Larger, more trusted EU-wide asset classes
- Large EU institutional investors
- Better returns for EU savers
- Better funding for investment & innovation
  - Supporting strategic autonomy
- Part of broader Savings & Investments Union
  - Also including a completed banking union
  - Letta & Draghi reports 2024

# Disproportionate Benefits for CESEE Countries

- Comparatively disadvantaged by investment home bias
    - More investment / development needs
    - Less savings
  - In complete SIU, CE[SE]E shares would represent 21 percent of optimal portfolio
    - Currently 3 percent; less than 0.5 percent in DE, FR
- Source: Gossé & Jehle (2024) "Benefits of diversification in EU capital markets: Evidence from stock portfolios" + communication with the authors*

# From 27 Markets to One

- Index providers, e.g. S&P:
  - Frontier: BG, CY, EE, HR, LT, LV, RO, SI, SK  
[MT unrated]
  - Emerging: CZ, GR, HU, PL
  - Developed: AT, BE, DE, DK, ES, FI, FR, IE, IT, LU, NL, PT, SE
- What would it take for the entire EU to be in a single [developed] category?

# The Policy Path

- Long-term vision
  - Uniform investor protection
  - Bank credit decorrelated from national sovereign credit
  - Fiscal union / safe asset of reference
- In current policy cycle / EU term 2024-2029
  - National reforms
    - Pensions, housing finance, investment taxation, insolvency law
  - At EU level: supervisory integration
    - Benefiting from proofs of concept: SSM, AMLA

(Assuming no unexpected game-changing development)

# Supervisory Integration

- Promise of catalytic impact on both market integration & market development
  - Defragmentation
  - Improved & uniform supervisory effectiveness
  - Level playing field for competing financial centers
- Achievable with comprehensive approach
  - “Supercharged” ESMA with national offices
    - Possible allocation of lead roles in supervisory mandates
    - Existing NCAs phased out at end of decade-long transition
  - Incremental approaches less compelling
    - Misalignment of incentives, complexity

# Concerns & Opportunities



- Relative indifference of countries will comparatively well-developed markets
- Concerns about supervisory quality in countries which have developed comparative advantage
- CESEE countries in neither category