Invest in **Europe** First!

How to Stop Capital Flight and Fund European Business with European Savings

MARCH 2025

This Note has been prepared by a team of researchers and policy experts of AREL Single Market Lab (Rome), Jacques Delors Centre (Berlin), Jacques Delors Institut (Paris) and IE Global Policy Center (Madrid). It benefited from comments by a number of experts and practitioners.

A concerning trend is the annual diversion of around €300 billion of European families' savings from EU markets abroad, primarily to the American economy, due to the fragmentation of our financial markets.

Enrico Letta, "Much More than a Market," April 2024

Europe has more savings than the United States of America. And every year, around 300 billion euros of these savings go to finance the American economy.

Mario Draghi, "The Future of European Competitiveness", September 2024

We have discussed the issue many times: we need to ensure that the billions of savings from Europeans are invested in markets inside the EU. For this, completing the Capital Markets Union is absolutely paramount. It could, alone, attract an additional hundreds of billions of investment per year in the European economy, boosting its competitiveness.

Ursula von Der Leyen, Letter to EU Leaders on Defence, 4 March 2025

Europeans save more of their income than Americans... But Europe often struggles to turn ideas into new technologies that can drive growth. One reason is that it is much less able than the United States to channel its significant savings into scaling.

Christine Lagarde, European Banking Congress, Frankfurt, 22 November 2024

What I'm saying is that there can be associations of different member states. They can group and promote this and find the best solutions. But the point is, will we be waiting for every single one to develop their own capital markets? It hasn't happened.

Maria Luis Albuquerque, Bloomberg interview, 29 January 2025

Europe has more savings than the United States of America. And every year, around 300 billion euros of these savings go to finance the American economy.

Emmanuel Macron, EUCO Brussels, 18 April 2024

What is the relevant market in this time with regard to capital markets? Is it the national market? The European market? Or the global market? My clear answer is that it is the global market.

Friedrich Merz, Hertie School public event, Berlin, 6 November 2024

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ABSTRACT

The European Union faces a critical challenge: despite holding one of the world's largest pools of private savings, an estimated €300 billion flows out of Europe annually, primarily to the United States, due to the fragmentation and inefficiency of its capital markets.

This capital flight weakens Europe's ability to finance innovation, scale up businesses, fund its security and compete globally. Within the broader Savings and Investments Union (SIU), this note outlines two priority areas for reform, each accompanied by concrete policy proposals which Member States should take under EU coordination:

- Providing effective incentives for European savings to fund European businesses. To channel both retail and institutional savings into productive European investments, the note puts forward the following proposals:
  - An EU-wide Individual Investment Savings Plan, inspired by successful national schemes (e.g., Italy's PIRs, France's PEA, and the UK's ISAs), to encourage retail investments in private and public markets through (national) tax incentives.
  - An auto-enrolled EU Long-Term Savings Product, based on - but much improved - the existing Pan-European Personal Pension Product (PEPP), to pool long-term capital across Member States.
  - Tax breaks for pension funds that allocate capital to the European real economy, particularly in strategic sectors including defence, green and digital.
- Paving the way for a more efficient and consolidated European asset management industry. Recognizing that Europe's asset management sector is fragmented and unable to compete with global players, the note proposes:
  - Facilitating cross-border M&A to create globally competitive EU asset managers.
  - Harmonizing regulatory frameworks, particularly in insolvency, taxation, and corporate governance, to reduce fragmentation and increase market integration.

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1. Introduction

Despite being one of the world's largest economic blocks, the European Union lags significantly behind other advanced economies in the depth and efficiency of its capital markets.

Compared to the United States, where capital markets play a dominant role in financing the economy, the EU remains heavily reliant on bank lending. Public and private equity markets are underdeveloped, IPO activity is limited, and venture capital remains scarce.

Data confirms this structural gap: while the EU accounts for around 15% of global GDP, its share of global equity market capitalization is just 11% - a stark contrast to the U.S., where capital markets represent more than 40% of global equity. Furthermore, European companies overwhelmingly rely on bank loans, with only 14% of EU non-financial corporate funding sourced from capital markets, compared to 36% in the US. This bank-centric model, which is not necessarily a weakness per se, presents some vulnerabilities which we should address.

In addition, more recently, due also to the new geopolitical context, a new vulnerability has been highlighted by the EU public debate: the growing outflow of European savings towards the United States. The EU is home to approximately €33 trillion in private savings, yet a significant portion of these funds is not reinvested in the European economy but instead flows into U.S. capital markets and is managed by US asset managers.

This phenomenon is driven by multiple factors. First of all, European institutional investors prefer to allocate capital to the U.S. due to the higher returns and greater market depth found in American markets. Additionally, the dominance of U.S. asset managers, who manage a significant share of European investments, further reinforces capital outflows. Moreover, the fragmentation of EU markets drives investors to seek simpler alternatives abroad, further exacerbating the absence of a unified European capital market.

In light of these considerations, the Letta Report advocates "the creation of a Savings and Investments Union (SIU), developed from the incomplete Capital Markets Union," aiming "not only to keep European private savings within the EU but also to attract additional resources from abroad." The Draghi Report similarly highlighted that "integrating Europe's capital markets to better channel high household savings towards productive investments in the EU will be essential." These proposals shape the European policy debate, as evidenced by European Commission President Ursula von der Leyen making the establishment of a Savings and Investments Union (SIU) a core pillar of the next phase of European financial integration. Member States have endorsed a further push, but diverging views on the individual files means progress is still rather gradual. The Eurogroup's March 2024 statement on the future of the Capital Markets Union calls for action, identifies thirteen priority measures and includes a high-level roadmap to drive implementation forward. Yet, the language of the statement and the subsequent

follow-up discussions demonstrate that making progress is complex. Seeking to further increase the momentum, the Spanish Economy Minister Carlos Cuerpo launched in March 2025 a 'European Competitiveness Lab', in which willing Member States can volunteer to cooperate and test projects to advance the integration of European capital markets.

Beyond its financial rationale, the SIU is also instrumental in advancing the EU's broader strategic objectives. Next to the green and digital transition and strengthening competitiveness, the expanding Europe's defence and military capability has become a key new priority, as emphasized by European Commission President Ursula von der Leyen in her 4 March 2025 Letter to EU Leaders on European defence financing. Mobilizing private capital to finance the defence industry is one of the five pillars of ReArm Europe.

2. Issues to address

It is therefore impellent to address the following issues:

- **Lack of liquidity and depth in European public markets.** European public markets are increasingly constrained by insufficient liquidity and depth, as evidenced by the growing challenges in launching IPOs, particularly within the growth segment. This may be grounded in different reasons, including some global secular trends. However, in Europe regulatory burdens on listed companies, reduced flexibility in governance, and misalignment between different legislations, as well the fragmentation along national borders with a multiplicity of different venues, constitute further hurdles. The reduced number of IPOs limits market expansion opportunities, perpetuating a cycle of weak investor interest and diminishing market vitality.
- **Limited development of European private capital markets.** European private capital markets, including private equity, private credit, infrastructure, and real estate funds, are less developed and sizable compared to their U.S. counterparts. The substantial difference in assets under management between U.S. and European alternative asset managers is striking.
- **Need for investment in the digital, green and geopolitical transitions.** As stressed in Letta and Draghi Reports, the EU economy requires massive investments in areas such as green, digital and security. Mobilization of private capital is necessary. For the sheer amount and for the type of investments, the public sector cannot meet these needs.
- **Limited capital for growth companies.** Growth companies, which are inherently riskier but hold significant potential, struggle to secure domestic funding. This scarcity of capital stifles innovation and undermines competitiveness. The difficulty of securing scale up/growth capital locally means Europe risks missing out on innovation sectors such as clean energy, AI, and biotechnology, where significant early-stage funding is crucial.

- **Reduced options for retail and institutional investors.** There are several challenges for the participation of retail and institutional investors in public markets, including the lack of markets' depth. It is crucial to develop investment options tailored to the needs of institutional investors like pension funds and insurance companies.
- **Dominance of U.S. asset managers**. U.S. asset managers, leveraging their concentration in central hubs, their size, and global networks, maintain a dominant presence in the European market, draining important fees out of Europe. This creates long-term dependency and reduces local control over strategic industries. It also contributes to a "brain drain" phenomenon, where European capital and talent shift toward the more lucrative and resource-rich U.S. market. This dominance could become even more significant if the Trump Administration proceeds with its deregulation agenda for financial services, potentially reinforcing the power of US major financial institutions – even though this is likely to also increase the risk of market instabilities.
- **Erosion of global influence.** A weak financial environment, with relatively small actors, limits Europe's ability to act as a global financial hub, reducing its influence on global economic trends and leaving it vulnerable to external shocks. In this context, decisively strengthening our financial institutions is not just an economic necessity but a geopolitical imperative.
- **Trade defence.** In times of aggressive behaviour by external trading partners, curbing capital flight by addressing the financial dominance of economic partners could become a crucial trade defence measure. Strengthening the resilience of domestic financial markets and reducing reliance on foreign financial systems can help safeguard economic sovereignty, mitigate external vulnerabilities, and reinforce Europe's ability to respond effectively to global economic shifts.

While multiple reforms are needed to address the full scope of these issues, and within the broader SIU, this note focuses on two priority areas:

- providing effective incentives for European savings to fund the European businesses, including those involved in the transitions' sectors;
- paving the way for a more efficient and consolidated European asset management industry to better support citizens and the real economy.

These two measures are interconnected and mutually reinforcing. By directing savings towards the European real economy, we foster a deeper and more resilient financial ecosystem. Additionally, a strong EU asset management industry is essential for efficiently allocating resources to strategic sectors, driving a sustainable cycle of investment and growth.

3. Providing incentives for European savings to fund the European businesses

The outflow of European savings towards non-European investments underscores the necessity of creating attractive investment vehicles tailored specifically to the needs of retail and of institutional investors.

3.1. Retail investors

Drawing on successful national experiences, we advocate the creation of a EU wide tax scheme which incentivizes European retail savings towards European businesses, both in public and private markets.

3.1.a. National schemes

The experiences of Italy, France and the UK offer vivid examples of how well-structured incentives can mobilize ordinary savers toward strategic market segments.

In Italy, the introduction of "Piani Individuali di Risparmio" (PIR, Individual Savings Plans) in 2017 proved a success. The PIR scheme grants to retail savers total tax exemption from capital gains, dividend and inheritance taxes. The following conditions apply:

- At least 70 percent of the capital must be invested in securities issued by listed Italian companies (the remaining 30% is completely unrestricted). Of the 70%, 30% must be invested in smaller or mid-sized companies, that often struggle to attract mainstream funding.
- The holding period must be at least five years.
- A maximum amount for individual saver is set, above which the tax exemption does not apply.

In addition, in 2020 a complementary scheme, called "Alternative PIR", was introduced. Alternative PIRs provide the same total tax exemptions for investment into private companies, for example through alternative funds such as private equity, venture capital and private debt, while also setting a higher investment cap. This measure signalled policymakers ambition to draw affluent savers into more illiquid markets.

Similar to PIR, the Plan d'Épargne en Actions (PEA) is a French tax-advantaged investment account designed to encourage long-term investment in European equities. PEA provides for tax exemptions although less generous than the Italian PIRs. As investment requirements, at least 75% of the portfolio must be invested in listed companies within the European Economic Area with a holding period of 5 years.

The remaining 25% can be held in cash or other eligible financial instruments. Direct bond investments and real estate funds are not eligible. As for the PIRs, the PEAs have limits on how much individuals can contribute to a PEA.

The PEA-PME is designed to support small and mid-sized enterprises and follows the same tax framework but directs investments towards SMEs.

Similarly, UK's Individual Savings Account (ISA) scheme has, over time, evolved into a pillar of retail investment culture. Though it does not feature an explicit geographical perimeter, it offers a similarly powerful incentive: no taxes on capital gains, dividends, or interest for as long as the funds remain within the ISA wrapper. Investors can contribute up to twenty thousand pounds each year, choosing to invest in cash, stocks, bonds, or other financial instruments. ISAs do not have a minimum holding period. Cash ISAs attract those seeking stability and easy withdrawal, while Stocks and Shares ISAs cater to individuals ready for market exposure. With these choices, the ISA framework accommodates different appetites for risk, thereby broadening participation. The minimal red tape involved in opening an account, combined with high public visibility, has helped embed ISAs deeply into the British culture of saving.

As a result, Italian PIRs, French PEAs, and UK ISAs illustrate how well-designed, accessible structures combined with strong incentives can drive large scale retail engagement.

3.1.b. Proposal for the EU Individual Investment Savings Plans

While some Member States have successfully introduced national schemes, these initiatives remain limited to domestic investors and lack a coherent European framework. The absence of a cross-border system deprives the European economy of a powerful mechanism for mobilizing private savings into much-needed equity and debt financing, particularly for small and medium-sized enterprises.

To address this gap, we propose that the European Union, through coordination, makes sure that the Member States introduce an harmonized framework for individual investment savings plans.

Considering that taxation is a member-state competence, each Member State will be left with the decision on the intensity of the tax advantage as long as a certain "appealing" threshold is reached. If it turns out that reaching an agreement at the EU level is impossible, a coalition of the willing could be constituted along the recent Spanish proposal. A certain number of States could decide voluntarily to get together and spearhead this mechanism in their markets.

At the heart of this proposal is the principle that European citizens should have access to a uniform investment savings plan. Each Member State would be required to establish an EU-PIR framework, allowing individuals to allocate their savings into European-listed equities, bonds, and SME-focused funds. To ensure that these investments support the long-term development of European businesses, at least 70% of the portfolio could be allocated to European assets, with a specific focus on SMEs and mid-cap enterprises that require growth capital.

By prioritizing European companies, the EU-PIR scheme would channel capital directly into businesses that drive employment, green and digital innovation, and competitiveness within the single market. The scheme would rely on existing regulatory frameworks such as UCITS for public markets and ELTIF for private markets and benefit from their passporting mechanisms.

By creating an EU-PIR scheme, the Union would help unlocking a new era of financial participation among its citizens, strengthen capital markets, and reduce capital flights towards other economies.

Under such a scheme, investors could enjoy tax incentives which could go as far as foreseeing full exemption from capital gains tax and dividend tax after five years, thereby encouraging a long-term perspective in equity markets. In countries where inheritance taxes are particularly high, introducing targeted incentives linked to inheritances or donations could also be considered in order to unlock dormant savings and facilitate intergenerational capital flows.

The European Commission has acknowledged the significance of this approach. In Ursula von der Leyen's mission letter to Maria Luís Albuquerque, Commissioner for Financial Services and the Savings and Investments Union, it is stated "you should tackle the fragmentation of capital markets by helping design simple and low-cost saving and investment products at EU level. You assess the feasibility of tax incentives for those products".

Beyond its financial and economic benefits, at a time when geopolitical tensions and external dependencies threaten economic stability and strategic autonomy, an EU-PIR framework would play a crucial role in reinforcing Europe's financial sovereignty. By incentivizing domestic savings to flow into European businesses, rather than into foreign assets or bank deposits, the Union can reduce reliance on external capital sources and promote homegrown financial resilience.

Furthermore, a variation of this scheme could be explored to specifically channel retail savings toward investments in the EU's green and digital transition and/or defence and security.

3.2. Institutional investors

The ability of European insurance companies and pension funds to channel substantial pools of long-term capital into the European real economy remains underutilized. Therefore, this note advocates for:

- the creation of an auto-enrolment EU long-term savings product, built upon the Pan-European Personal Pension Product (PEPP), as suggested in the Letta Report.
- the introduction of tax breaks for pension funds to encourage real economy investments.

3.2.a. Auto-enrolment EU long-term savings product

The Pan-European Personal Pension Product (PEPP) was introduced in 2019 with the objective of promoting cross-border retirement savings and addressing the fragmentation of personal pension markets within the European Union. This regulatory framework allows financial providers - including banks, insurance companies, and asset managers - to offer a uniform pension product across Member States, thereby streamlining administrative processes and enhancing cross-border portability for savers. Despite these intentions, PEPP's implementation has been slow and its impact modest. A significant obstacle is the divergence in national tax regimes: although providers can operate across borders, inconsistent tax treatments dilute PEPP's attractiveness. Moreover, PEPP's structure is complex, requiring multiple "compartments" for savers moving between Member States. This approach, while supporting portability, introduces administrative burdens and higher compliance costs. However, these limitations do not negate the fundamental premise of PEPP: that a truly cross-border, standardized personal pension product can be a powerful instrument for harnessing Europe's considerable private savings to meet strategic investment needs.

Building on these premises, and as suggested in the Letta Report, this note advocates an Auto-Enrolment EU Long-Term Savings Product, which could be based on these features:

- **Automatic enrollment with opt-out.** Based on successful national experiences - such as the United Kingdom's auto-enrolment program and Ireland's forthcoming introduction of a comparable scheme - this system would automatically enrol workers in an EU-wide pension plan, with the option to opt out. This "soft mandatory" approach would boost participation while preserving individual choice. Governance would remain at the national level, ensuring that each Member State retains control over implementation, while adhering to common EU-wide rules to ensure portability and consistency across borders, without overriding national discretion in key areas. Employers across Member States could facilitate enrolment, ensuring portability within the EU.
- **Single default investment option, with additional compartments.** A balanced, low-cost, passively managed fund would serve as the default, reducing complexity and fostering trust. Additional compartments (e.g., growth-oriented or ethical portfolios) could be offered but without complicating initial enrolment.
- **Streamlined governance and cost caps.** To enhance transparency and affordability, the default option should include mandatory cost caps. Governance would be standardized, with clear annual statements and uniform reporting metrics to improve saver engagement.
- **Uniform baseline of tax incentives.** To address tax fragmentation, Member States should agree on a minimum tax advantage, ensuring competitiveness with national pension schemes while allowing flexibility.

These tax incentives would be structured to encourage participation and reduce opt-out rates, making long-term savings more attractive. A coordinated approach through enhanced cooperation mechanisms or voluntary national commitments should be pursued, while soft law instruments could be adopted at the EU level.

- **Centralized labelling, local distribution.** The product would be marketed under a standardized EU-wide name to enhance recognition and trust. However, it would be distributed through national payroll administrators and financial intermediaries, ensuring accessibility. ESMA would oversee licensing and consumer protection, while national regulators would handle day-to-day supervision.

3.2.b. Tax break for pension funds on real economy investments

A further step in aligning European savings with European investment needs is the introduction of a tax break for pension funds that allocate capital to the real economy. The rationale behind this measure lies in the long-term investment horizons of pension funds, which make them uniquely positioned to finance capital-intensive projects that are essential for strengthening Europe's competitiveness and economic resilience. However, the current regulatory and tax framework does not provide sufficient incentives for them to prioritize investments in private assets. By introducing a dedicated tax exemption, Member States would unlock significant private capital for sectors that are crucial for Europe's long-term growth.

This incentive could be based on the following features:

- **Defined eligible sectors.** Tax break would apply only to investments in a predefined set of real economy sectors using the same eligibility criteria as those applied by the European Investment Fund (EIF). These sectors already align with key EU priorities, covering among others critical infrastructure, the green and digital transition, and industrial competitiveness. The defence sector should also be included to attract essential investment, strengthening the financial tools available to meet the EU's pressing security funding needs. Investments could take multiple forms, including direct equity stakes and investing in private equity, credit and infra funds.
- **Exemption on returns.** Pension funds that commit a defined additional share of their portfolio to the eligible sectors would receive a tax exemption on the investment income (capital gains, interest, and dividends) earned thereon. Incentives should apply only to additional investments, while existing investments should not be covered. Member States would set the precise scope of the tax relief to align with their national fiscal frameworks, with the understanding that the exemption should be robust enough to be appealing.
- **Minimum holding period.** The tax break would be contingent on a holding period of at least five years, to ensure long-term capital commitment.
- **Implementation through member states.** Given that taxation lies primarily within national competence, the EU would provide a harmonized framework to encourage a uniform approach, while allowing states flexibility in applying thresholds or additional conditions.

A group of proactive Member States could also choose to move first, encouraging others to join once the policy demonstrates clear results.

3.3. A matrix approach to mobilizing European savings

To systematically address the challenge of channelling European savings into European investments, the measures presented in this note can be structured within a matrix-based framework. This approach distinguishes between retail and institutional investors and their respective interactions with public and private markets. Recognizing that each quadrant of the matrix faces distinct regulatory, risk, and market conditions, the table below provides a summary of the proposals presented above, outlining how different investor categories can be engaged to strengthen European capital markets.

Source: own elaboration

Table 1: A matrix approach to mobilizing European savings

	Public markets	**Private markets**
Retail investors	EU Individual Investment Savings Plans through UCITS	EU Individual Investment Savings Plans through ELTIF
Institutional investors	Auto-Enrolled EU Long-Term Pension Product	Tax break for pension funds on real economy investments

4. Paving the way for a more efficient and consolidated European asset management industry

The outflow of European savings towards non-European investments underscores the necessity of creating attractive investment vehicles tailored specifically to the needs of retail and of institutional investors.

The scale gap between European and U.S. asset managers is striking. According to recent data, the top four asset managers worldwide are all U.S.-based firms, with BlackRock managing over $11.5 trillion, followed by Vanguard Group ($8.7 trillion), Fidelity Management & Research ($3.88 trillion), and The Capital Group ($2.55 trillion). In contrast, the largest EU-based asset manager, Amundi, ranks only fifth worldwide with $2.25 trillion in assets under management (AUM), significantly behind its U.S. counterparts.

This stark imbalance underscores how the fragmentation of the European asset management sector prevents firms from achieving the necessary scale to compete globally. Strengthening integration and efficiency in the sector is key to mobilizing savings and boosting competitiveness, but this must be done without shifting financial risks from banks to non-bank institutions.

A well-calibrated macroprudential framework should foster responsible risk-taking while preventing regulatory arbitrage and safeguarding financial stability. To address these challenges, this chapter advocates two sets of measures aimed at:

- fostering cross-border M&A, helping EU-based firms reach the critical mass needed to compete globally;
- harmonizing frameworks to facilitate market integration, providing a predictable legal environment for asset managers and investors.

4.1. Fostering cross-border M&A

Facilitating cross-border M&A is essential, as a more consolidated European financial industry, including banks and asset managers, would enable firms to benefit from economies of scale, expand investment opportunities for European savers, and strengthen the global position of the EU's financial sector.

The EU's competition framework must adapt to support the development of large, globally competitive financial players. While maintaining fair competition is crucial, merger control rules should ensure that decisions take into account the global scale of competition. In addition, careful examination should be given not only to the immediate competition effects but also to the long-term benefits for European citizens of fostering stronger European financial institutions. This approach would help prevent the automatic blocking of mergers that, while reducing fragmentation, ultimately enhance the Single Market's ability to compete globally.

Another step in fostering cross-border M&A is streamlining regulatory approval processes. In contrast to other major financial markets, where mergers and acquisitions are subject to a single, centralized review process, firms in the EU must navigate multiple layers of oversight, with national regulators often applying different criteria and timelines. Establishing a one-stop shop for within EU cross-border M&A approvals - coordinated at the EU level but implemented in cooperation with national authorities - would reduce uncertainty and administrative burdens, making it easier for firms to expand across borders. Greater alignment in supervisory requirements would also help asset managers avoid the inefficiencies created by having to comply with multiple, and sometimes conflicting, regulatory regimes.

4.2. Harmonizing key frameworks to facilitate market integration

Regulatory fragmentation remains one of the most significant obstacles to the creation of a large, competitive European asset management industry. Even as financial markets become increasingly integrated, fundamental divergences in key legal and regulatory frameworks - particularly insolvency regimes, taxation, and corporate governance rules - continue to create friction for cross-border investment and financial consolidation.

The most effective long-term solution would be the creation of a 28th regime - a set of fully harmonized, EU-level rules that businesses could voluntarily opt into, bypassing national divergences.

However, given the political and technical complexity of such a reform, its implementation is likely to take time. In the interim, two options could be explored: one to start with a more narrow regime in terms of business entities and areas of law covered, or second advancing harmonization among a coalition of willing Member States.

A key area for immediate progress is insolvency law, which remains highly fragmented across Member States. Differences in creditor rights, restructuring procedures, and the speed of insolvency proceedings create uncertainty for investors and limit the ability of financial firms to operate seamlessly across borders. This fragmentation not only discourages investment in cross-border assets but also complicates mergers and acquisitions, as firms must navigate multiple legal regimes when restructuring operations in different jurisdictions. A voluntary enhanced framework among willing countries - building on the EU Insolvency Directive - could significantly reduce these frictions.

Corporate governance harmonization is another critical component of financial market integration. Divergent rules on shareholder rights, board structures, and disclosure requirements create additional barriers for asset managers seeking to expand across borders. While full convergence remains politically complex, aligning core governance standards - such as transparency requirements, shareholder voting rights, and director responsibilities - would provide greater legal clarity for firms operating in multiple Member States.

Countries that recognize the strategic importance of deeper capital market integration should take the lead in aligning their insolvency rules, corporate governance frameworks, and tax treatments, creating a more integrated financial space within the EU. This approach would deliver tangible benefits in the short term, facilitating cross-border investment and financial consolidation while demonstrating the advantages of greater regulatory convergence. Over time, as the benefits of this alignment become clear, more Member States may choose to join, gradually building momentum towards a comprehensive EU-wide solution.

Finally, a codification of European capital markets laws, as put forward also by the Letta report, is an additional important dimension. The work of a large multi-country research group - lead by Professor Rüdiger Veil of the University of Munich - have demonstrated the benefits of a single European Capital Markets Code and made concrete proposals to overcome fragmentation and complexity in the current “Single Rulebooks” regime.

5. Conclusions

The outflow of European savings towards non-European investments underscores the necessity of creating attractive investment vehicles tailored specifically to the needs of retail and of institutional investors.

This issue not only undermines economic growth but also weakens Europe’s strategic autonomy, limiting its capacity to fund innovation, industrial competitiveness and defence capabilities at a time when global competition is more intense than ever.

The cost of inaction is high. As long as European capital continues to flow disproportionately towards the United States and other more integrated markets, the EU will remain dependent on external financial systems for the scaling up of its most innovative businesses. This not only erodes Europe's ability to retain its most promising companies and talent but also places the continent at a systemic disadvantage in the competition for technological leadership. At the same time, the dominance of non-European asset managers in overseeing European investments drains financial returns and decision-making power away from the continent, further entrenching Europe’s financial dependence.

This note, conceived within the broader SIU, aims at providing concrete solutions for strengthening Europe’s capital markets and retaining European savings within the Union. It deliberately focuses on two key areas - investment incentives for European savings and strengthening the EU asset management industry - as the most immediate levers to curb capital flight. Other relevant aspects for the full development of the SIU - such as trading infrastructure, supervision, and financing for start-ups and scale-ups - remain outside the scope of this paper, as the objective is to target the primary channels through which European capital leaves the continent.

While a comprehensive approach at EU-27 level would undoubtedly maximize the benefits, a group of willing Member States should consider implementing targeted initiatives while discussions continue at the EU level. By aligning investment incentives, facilitating cross-border asset management, and advancing regulatory harmonization within smaller groups, these countries can create tangible progress without waiting for a full EU-27 agreement. Initiatives such as the ‘European Competitiveness Lab’ already provide a framework for voluntary cooperation on financial market integration. This approach should be actively explored, as it builds on existing political momentum, allows for the achievement of immediate objectives, and can serve as a steppingstone towards broader EU-wide adoption.

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