Revamping EU capital markets: a tough task without simple solutions

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Article published in the Eurofi Financial Forum Magazine. September 2024 .

The appeal of European capital markets has decreased in the last decade, and they have not developed enough if we compare them with those of other geographies. We have fewer listed companies and their weight with respect to the economy has shrunk.

Markets have not either succeeded to attract European citizens to invest more in stocks , funds and fixed income compared to bank deposits or real estate.

Europe needs much deeper and more liquid capital markets if we want it to catch up our economic position in the world. Our economic future is linked to this. European leaders, thinkers and institutions clearly agree that either we enhance capital markets and Europeans' investment in these markets, or the European economy will regret it for decades.

There is consensus on what needs to be done, but divergences on how to achieve it. Political initiatives such as CMU flow to achieve this goal, but in my opinion, it is necessary to focus on a broader and more holistic vision that would focus on several factors. There is no silver bullet but a series of complex and costly policy actions.

The first and most important one is to boost a European strategy that promotes retail investment in financial instruments. This requires a cultural and structural change so that investment in shares, bonds, investment funds, and pension funds become the main destination for the long-term savings of European citizens. But a transformation of this magnitude, although possible, is not simple, and requires a stable framework maintained over time. Among the most important ones is to offer stable tax incentives to retail investment in financial instruments that allow investment through personal financial savings accounts as in the Swedish market. And, also, incentives to issuers that equate the taxation of financing through debt with equity financing. Similarly, a favorable framework is needed for investment in funds and pension plans that boost long-term investment and a promotion to financial education for teens and adults with much greater resources than the current ones.

Secondly, Europe must continue to be open to international capital in a double sense. The opening of the market means the freedom of non-European investors to invest and disinvest in Europe and the freedom of European savers to invest and disinvest their savings outside of Europe. It would be a mistake to lure EU citizens (through tax measures) to invest only in EU companies. If EU companies are going to succeed attracting investment, they better do that on their own merits. And if EU citizens are going to invest more, they should be allowed to do so in the pursuit of the higher return, be that in the EU or abroad.

Thirdly, it is necessary to advocate for a single regulation and a coordinated supervision that consists of a single rulebook that is applied in a consistent way, where ESMA must have the role of a strong coordinator and overseer of national supervisors. Europe must show more trust in ESMA and provide it with greater capabilities, so that we are more agile in the EU adjusting the regulation to the dizzying changes of markets. This does not mean having a single supervisor for everything, because in most areas national supervision will always be more effective and efficient, and the existence of a single supervisor (as we have seen in banking) is not a recipe for faster market development or more integration.

As a fourth factor, care must be taken to ensure that listed companies do not become an experimental population for new regulations that address much broader social or economic problems, like climate change or gender diversity. These are cross-cutting for all companies regardless of whether they are listed or unlisted on a stock market.

And finally, I would add a fifth element, which is to be open to potential market consolidation. This should not be imposed by new regulation, it should not be forced but neither should it be hindered if market forces themselves see that it is necessary in order to achieve greater competitiveness.

ESMA has published a proposal on how to strengthen EU capital markets, with 20 proposals. And CNMV stands behind it in full. But we cannot cut corners. The main risk in the next political cycle in the EU is to pick a couple of flashy measures (like securitization and central supervision) to pretend that the CMU dossier is achieved, leaving out true incentives to change how Europeans are investing long term. That would be a huge mistake and a lost opportunity.