BANCA D'ITALIA
EUROSISTEMA

## Unione del Risparmio e degli Investimenti

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*VIGOnomics*

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To discuss the idea of a savings and investments union, let's start from first principles.

Ensuring a prosperous future for ourselves and our children requires smart, sustainable growth. Growth in turn requires investments that are efficiently allocated. The raw material for investments is savings, domestic or from abroad.

There is no shortage of savings in Europe, especially private savings: over the last decade, for instance, the average saving rate has been 13 per cent in the EU, versus 7 per cent in the US.

A share of such savings is invested outside Europe. Every year, the net flow of savings invested abroad from Europe amounts to about €300 billion.[1] In accounting terms, this is the other side of the coin of Europe's current account surplus: Europe's investments are less than its savings. It is good, of course, to have a healthy international position; but if you do not have enough attractive investment opportunities at home, for domestic as well as for international capital, you risk having too much of a good thing.

As a place to invest, Europe has two great strengths: good human capital (a highly educated workforce,[2] first-rate research[3]), and a large market.[4] The interaction between those two factors can be extremely powerful and must be leveraged. To convert human capital into successful innovation on the market, one key ingredient is having a single market that functions effectively as such.

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1 Letta, 'Much More Than a Market', April 2024 (the 'Letta Report'). In contrast, the US records net savings inflows, and this is mirrored by a current account deficit that averaged around $580 billion between 2014 and 2023.

2 The share of university graduates in the euro area has grown steadily over the past 20 years, rising from around 22 per cent in 2004 to almost 37 per cent in 2024. However, the incidence remains lower than that recorded in the United States, equal to about 50 per cent.

3 For instance, Europe produces almost one fifth of the top 10 per cent most cited STEM publications, as much as the US.

4 In 2024, EU GDP was about €18 trillion, while in the US it was about $27 trillion; the EU population was around 450 million, versus 340 million in the US.

Tremendous progress has been achieved since a European common market was first agreed on many decades ago; still, much remains to be done. The single market process extends over several dimensions: goods, services, labour and capital. While our main focus today is on the capital and financial market, all the dimensions are important. A firm can only exploit the full potential of the European market if it is effectively integrated in all respects.

Let me start, however, with banking and finance.

First of all, an integrated financial space must be based on sound structural foundations, including the regulatory aspect. We support the Commission's intention to undertake a review of the banking prudential framework, with a view to simplifying it as much as is practicable. We are encouraged to see that the Commission is determined to do this without calling into question the robustness of the prudential framework based on Basel III, which has served us well.

One should not forget, in this respect, that we have had three major crises in the last five years, and in each case the banking system has provided stability and support to the economy. It is fair to acknowledge that this is also because banks have faced the most recent stress episodes after a period of particularly good performance and profits; but prudential regulation and firm supervisory action have ensured that, by using such profits, enough capital and liquidity buffers have been set aside and preserved.

At the same time, we should plug any remaining holes in non-bank regulation. Worldwide, markets have functioned regularly in the past few weeks, despite very high volatility; policy reversals have recently favoured a degree of normalisation. However, there is no guarantee that there are no other challenges ahead. Uncertainty is still high. Looking forward, issues such as market liquidity and fund deleveraging in conditions of stress remain a potential source of concern. Leverage and maturity mismatches in funds, as well as interconnectedness with other financial institutions, still need attention.

Fundamental soundness is a necessary basis for a robust market. Building on this basis, the construction of a fully integrated capital market requires significant further progress in dismantling unnecessary barriers. The concept of an integrated savings and investment space includes not just the banking union, but also a financial markets and an insurance union. Let me briefly mention a few key issues that I see as priorities.

> *Banking.* – First, let's not forget that the Banking Union, while at an advanced stage, is still unfinished and needs to be completed. Sound and competitive banks have a crucial role to play, not only as providers of credit to firms, but also in the functioning of capital markets, through the provision of liquidity and investment services to participants. I therefore welcome the intention of the Commission to encourage the co-legislators to agree on ambitious targets for the Banking Union. The most prominent and still unresolved issues concern: (a) the crisis management framework for mid-sized banks and (b) a common deposit insurance framework.

*Markets*. – If a single capital market is the aim, enhancing market supervisory convergence is important but it is not enough. In the asset management sector, for instance, a single, simple and consistent discipline (a 'single rulebook') is ultimately needed, in my opinion, to avoid fragmentation and to address gaps and differences in supervisory approaches. In general, a more unified market oversight structure and system of supervision, especially for large cross-border operators, would in my view have many advantages, despite all the attendant difficulties. In the meantime, one should strengthen cooperation among NCAs, including through an enhancement of the role of supervisory colleges.

*Insurance*. – Progress is also needed in the insurance sector. A single market should be based on a harmonised and thereby strengthened supervision of large European insurers. It should also entail consistent consumer protection across Europe. As the head of Italy's insurance supervisor, I have often pointed out that gaps exist in the current consumer-protection regime. In fact, we have had several difficult experiences with cross-border companies; a better European coordination appears to be needed.

Beyond capital market issues, cross-border investments and competition in the EU also face some more general regulatory barriers, such as insufficient harmonisation in corporate and insolvency law, fiscal regimes, disclosure, and accounting standards. I think there is a general agreement that these barriers should and could be reduced to achieve a true savings and investment union, but the process can be difficult and lengthy.

In principle, there are three ways to address regulatory fragmentation: i) imposing full harmonisation of national regimes; ii) developing and implementing a voluntary, EU-wide system as an alternative to national frameworks; and iii) extending mutual recognition of national regimes. Each of these approaches has advantages and disadvantages.

Full harmonisation may be the theoretically ideal solution. It removes national regulatory barriers to the free movement of market operators and capital by creating a level playing field, thus reducing compliance and transaction costs for corporations and intermediaries and allowing them to move and compete freely. Full harmonisation also prevents a regulatory race to the bottom. The path to full harmonisation, however, is not always easy. It requires a political agreement among Member States, which is sometimes hard to achieve; it faces an issue of 'sunk costs' in terms e.g. of legal culture and practice (not to mention possible interest-group resistance); and it can be very complex in legal detail. In addition, an EU system of rules, once adopted, is difficult to amend, which may result in a lack of flexibility when adaptation to economic or technological developments is required.

Creating a voluntary opt-in EU-wide system alternative to national ones (a '28th regime') could overcome certain political difficulties in achieving harmonisation, and facilitate foreign and cross-border investments. The European Commission has been promoting an alternative set of corporate rules since the 1970s. European companies with a certain minimum subscribed capital have had the option of incorporating as a '*societas europaea*' since 2004. However, this possibility has not attracted as much interest as may have initially been hoped.[5] In its recent 'Competitiveness Compass', the European Commission has now proposed a plan to introduce a new EU-wide 'legal statute' for innovative companies. This regime would include key aspects of corporate, insolvency, labour and tax law. In light of past experience, its success would crucially depend on details, and on defining a clear, comprehensive and effective legal framework that meets the needs and interests of innovative companies.

Finally, extending the mutual recognition of Member States' regimes, without imposing additional regulations in the other Member States in which firms operate, is an alternative solution that is worth considering at least for certain purposes. It has worked successfully, in some cases, in the United States. On the other hand, it may raise delicate issues, for instance in taxation; language barriers may also be a challenge, e.g. in court proceedings. Another concern is ensuring that competition among national regulatory frameworks does not result in an unwanted race to the bottom.

A pragmatic strategy might include elements of all three approaches. It would be useful for the European rule-makers to consider which approach or approaches are most suitable for each area of law.

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In these days, as we face a difficult and unfamiliar global environment, one sees a growing interest in accelerating the single market process. There are opportunities as well as challenges in today's circumstances, and I think everyone would agree that we should grasp the former even as we endeavour to confront the latter effectively. It is to be hoped that the momentum is not lost; that both EU and national legislators are prepared to advance the integration of the financial market in a meaningful, consistent way. It is a necessary tool to enhance productivity and prosperity, but it would also serve to promote the other core aims of the Union.

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5 In 2008, the European Commission had proposed the introduction of a 'European Private Company Statute', a project with objectives similar to those of *societas europaea*, targeted at small and medium-sized enterprises; after much discussion, the proposal was withdrawn in 2013.

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