



Financing Europe's strategic objectives

Potential and limits of the Savings and Investment Union

Policy Brief from Money & Finance Programme

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Insufficient investment in key policy areas impedes the pursuit of EU's objectives and weakens Europe's competitiveness in global markets. Trying to address this problem, the Commission launched in 2025 the Savings and Investment Union as a central piece of its Competitiveness Compass and hoping to channel more credit and savings into productive investments. But the SIU is not designed to address the underlying reasons for weak investment in areas where financial flows are misaligned with strategic priorities. The only additional EU policy tool proposed for steering financial flows towards political objectives is "blending" private and public funding through the InvestEU fund and the future Competitive Fund. But closing the investment gap will require complementary measures in financial regulation and monetary policy.

KEY MESSAGES

- EU's investment shortfall is not primarily a problem of insufficient finance, but of finance that is systematically misaligned with strategic priorities. Many of investments which are highly relevant to EU's policy objectives present risk-return profiles that do not match private investors' expectations. Closing the gap requires steering tools, not only scaling tools.
- The SIUs drive for stronger market integration as about scaling; it promotes the common European market but does little to steer finance towards these investments.
- The same goes for the revival of securitization, a central piece of the SIU. The additional investments promised through banks balance sheet are theoretical and there's no guarantee that they will concern investments of relevance for the EU's policies. In addition, securitization might create new financial risks.
- The SIU missed the opportunity to opt for green securitization with strong conditionalities.
- Measures to improve access to venture capital are important to scale up technological innovation, but these segments do not reflect the overall financing needs of the economy.
- Financing strategic objectives relies therefore on public subsidies and blended finance instruments.
- Complementary measures are necessary and could be deployed in the fields of financial regulation, monetary policy and macroeconomic coordination.

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Introduction

The war in the Middle East reminded European decision-makers of the need to accelerate the energy transition and steer away from fossil fuel dependency. But the slow pace of transformation and weak investments appear in many other key policy areas such as industrial policy, climate adaptation and mitigation, defence or infrastructures.

The problem is well-documented and stands high on the political agenda but proves difficult to address in practice. Among the five “enablers” of European competitiveness identified by the EC – simplification, financing, removing barriers within the Single Market, better coordination, and improved skills and quality jobs – quick progress has been made only in the first field, through a series of Omnibus packages adopted since 2025, often to the price of lowering environmental and social standards in a range of fields. But it is unclear whether this will contribute in any meaningful way to accelerate investments.

European policy-making tries to address the financing problem in two ways: by dedicating a larger share of the EU-budget to investment through blended finance instruments – the Competitiveness Fund proposal under discussion in the EP – and by easing conditions for private investments through the Savings and Investments Union (SIU) legislative package, launched by the European Commission in March 2025.

This policy brief examines the SIU and the extent to which it supports EU’s policy objectives. Naturally, financing alone will not reverse the trend. It must be part of a comprehensive strategy that also includes public procurement, state aid rules and new trade rules — topics addressed elsewhere (Péron et al., 2025). According to Grjebine et al. (2026), the EU’s existing trade defense instruments are too reactive and too fragmented to match the Chinese industrial strategy. US tariffs compound the pressure by diverting Chinese exports toward European markets (Tordoir & Setser, 2025).

The SIU legislative package is organised in four strands, each with specific timelines starting in 2025 and with a first evaluation scheduled for 2027:

- Easing rules for private financing: most importantly, a revival of the securitisation market, but also a reform of venture-capital rules.
- Recommendations for more efficient channelling of savings to long-term investment vehicles, mainly through new Savings and Investment Accounts (SIAs) and revised supplementary pension rules, where applicable.
- Deepening of European financial markets by integration of technical infrastructures such as post-trading systems, central securities depositories, settlement rules and trading structures, to reduce national barriers within the single market.
- Supervisory convergence: strengthening the role of European supervisors ESMA (European Securities and Markets Authority), EIOPA (European Insurance and Occupational Pensions Authority) and EBA (European Banking Authority), and, in some areas, moving toward a single supervisory framework, following the Banking Union model.

This brief is structured in three sections. Section 1 examines briefly the nature of the problem. Section 2 discusses the ways in which the problem is being addressed by the SIU. Section 3 highlights complementary measures that seem necessary to truly address the problem.

1. Europe's problems with strategic investments

Amounts of investments needed to accomplish EU's various political objectives have been estimated and discussed by experts and politicians for many years. The Draghi Report (2024) estimated them to €750–800 billion per year (about 4.7–5% of EU GDP), covering innovation, industrial decarbonisation, energy and clean tech. I4CE (Institute for Climate Economics)'s 2025 State of Europe's Climate Investment report puts the annual climate-investment gap at €344 billion, about 2% of EU GDP (Calipel, Henry & Cornaggia, 2025). Even when limited the green transition alone, totals depend on scenario choices (technology-led versus sufficiency) and choice of sectors Couppey-Soubeyran & Kalinowski (2024). The estimates vary even more when other transformations are taken into consideration, reflecting an EU context in which climate targets and Green Deal objectives coexist with concerns about competitiveness, geopolitical threats, economic security and value-chain reshoring. In France for instance, the latest evaluation report on the France 2030 programme called for "a public investment plan in the infrastructure necessary for the transition to a low-carbon economy" and for additional measures to support business investment in the decarbonisation of industrial processes.

Most importantly, the EU is not on track for any of major objectives stated. A study by I4CE found for instance that wind-energy investment reached only 29% of the annual level needed, building renovation about 34%, and electricity grids face a €19 billion annual shortfall. Over six past years, fossil-fuel investment and subsidies rose while support for renewables declined (Velten et al., 2025). The result is slow renovation, a decline in heat-pump sales since 2023, an EV (electric vehicle) slump in 2024, and insufficient wind expansion. Electrification is slow across sectors, and industrial electricity prices rose more than 7.5% per year between 2019 and 2024, far outpacing the US and China.

This structural under-investment is one of the reasons explaining why Europe is losing comparative advantages that underpinned its industrial model, as illustrated by Germany losing over 240,000 industrial jobs in two years (2024–25). About 24% of EU total exports are threatened over the medium term by competitive Chinese products, and on domestic markets up to 55% of European manufacturing output could be displaced by Chinese exports – around 70% in Germany, 60% in Italy, 50% in Spain, 36% in France. This reflects the "Made in China 2025" strategy, which explicitly targets EVs (electric vehicles), batteries, industrial equipment, chemicals, pharmaceuticals, machine tools and aeronautics.

A central problem in this regard is the gap between EU's policy objectives and financial evaluation of investment projects. Both Letta (2024), Draghi (2024) and Noyer (2024) reports emphasise that European households hold some €35 trillion in savings which could be channelled into productive investments instead of flowing into US financial markets where they are invested in US equity and debt. Implicitly, the suggestion is that to "bring home" savings and asset management, Europe's financial markets has to become just as attractive to global investors as their US counterparts – and to European investors as well, as these are being considered as global players among others. But most investments considered strategic are not sufficiently profitable to attract private investors spontaneously; the role of impact finance remains limited, the capacity of banking and financial regulation to steer financial flows minimal, and other economic regulations remain insufficient. For instance, the EU ETS (Emissions Trading System) system "remains the central instrument for industrial decarbonisation, but its price

volatility has so far prevented the creation of a stable green premium that could guide long-term investment in low-carbon materials and technologies” (Velten et al., 2025). The upshot is that the EU’s investment shortfall is not primarily a problem of insufficient finance, but of finance that is systematically misaligned with strategic priorities. Closing the gap therefore requires steering tools, not only scaling tools.

2. Why the SIU falls short of its strategic ambitions

The SIU legislative package is structured around five strands: the revival of securitisation, a new framework for European Savings and Investment Accounts, a Supplementary Pensions Package, the integration of European financial markets, and a strengthening of supervisory convergence. This section examines each strand in turn and assesses, in each case, its likely impact on investments of strategic relevance.

2.1 The revival of “resilient” securitisation

By simplifying the regulatory treatment of securitization, the Commission and the European Parliament want to free up bank balance sheets and enable banks to extend additional credit to EU households and businesses. The package contains following changes to the existing regulation:

- **New “resilient” securitisation category with lower risk-weight floor¹.** The Commission introduced a category for senior positions meeting additional structural safeguards². These positions benefit from a risk-weight floor of 5%, compared to 10% for standard STS securitisations³ and 15% for non-STS — roughly in line with highly-rated covered bonds. The EP rapporteur Ralf Seekatz narrowed the scope: the resilient category would apply only to synthetic on-balance-sheet securitisations, removing its relevance for traditional securitisations and CLOs (Collateralised Loan Obligations).
- **Recalibration of risk weights and the 'p-factor'⁴ for all securitisation positions (CRR).** The Commission proposes reducing p-factors and lowering risk-weight floors across STS and non-STS categories to make capital requirements more risk-sensitive. The EP rapporteur goes further and proposed a 4% floor for resilient-STs senior positions (vs. the Commission's 5% and the Council's 6%), broadly reduces p-factors across categories, and abolishes the distinction between originator/sponsor and investor positions. Noting this would give senior securitisations better treatment than covered bonds, he symmetrically proposes lowering covered bond risk weights from 10% to 5% for the highest-rated issues.

¹ A risk-weight floor is a regulatory minimum that determines how much capital a bank must hold against a given asset, regardless of what its internal models might calculate. The lower the floor, the closer senior securitisations come to being treated as nearly risk-free.

² Sequential amortisation, limits on high-risk exposures, minimum subordination, and funded credit protection only.

³ Simple, Transparent, and Standardised (STS) securitisations are a regulatory framework introduced by the EU (under Regulation 2017/2402) to revive the securitisation market by boosting investor confidence.

⁴ The p-factor is a multiplier that inflates capital requirements for securitised positions relative to the same loans held directly on the balance sheet. It is designed to capture agency and model risks.

- **Simplified reporting and due diligence.** The Commission proposed cutting mandatory disclosure fields⁵ by at least 35%. For EU-supervised sell-side parties, investors would no longer need to independently verify regulatory compliance — competent authorities are already responsible for this. Due diligence requirements become more principle-based and proportionate. EP rapporteur Seekatz (EPP) supports the simplification but goes further on private securitisations: he proposes removing the obligation to lodge data with trade repositories, while keeping availability to regulators.
- **Expanded UCITS⁶ investment limits.** The Commission proposes expanding the investor base by allowing UCITS funds to hold up to 50% of their assets in a single public securitisation, up from the current 10%. This is a demand-side measure aimed at increasing the pool of institutional buyers.
- **Adjusted capital requirements for insurers holding securitisation positions (Solvency II).** The Commission proposes lowering capital charges for insurers investing in senior STS securitisation positions, making them more commercially attractive relative to covered bonds and corporate bonds. The Commission's own estimate is approximately €6 billion in capital relief for the insurance sector — the only concrete quantitative figure published in the impact assessment.
- **Revised eligibility of STS securitisations for banks' LCR⁷ buffer.** The Commission proposes broadening the conditions under which senior STS securitisation positions count toward banks' mandatory liquidity buffers, making them marginally more attractive as liquid assets.
- **Adjustments to STS criteria for traditional and synthetic securitisations.** The Commission proposes a range of technical adjustments, including allowing traditional securitisations to be structured without a Special Purpose Vehicle (SPV) for smaller transactions, and clarifying homogeneity requirements for SME (small and medium-sized enterprise) loan pools seeking the STS label.

Impact on strategic investments

Securitisation is not a direct funding instrument for the real economy: it lets banks refinance existing loans, cut regulatory capital, and transfer credit risk to non-banks. It creates new capacities for bank lending but does not address the risk-return profile of underlying investments. Many of the most urgently needed investments — building renovation, industrial decarbonisation, grid expansion, clean-tech manufacturing, defence industry — share a profile structurally unattractive to private investors: long horizons, low or uncertain returns, high capital intensity, and a wide gap between social-economic impact and financial value. The €1.5 trillion "additional credit capacity" cited by the Noyer Report is a theoretical ceiling for balance-sheet space, not an estimate of productive investment flows — the Commission's own impact assessment explicitly stated it could not quantify the real-economy lending effect. Securitisation can help segments that already interest investors and where a liquid secondary market exists. As the Joint Committee of the ESAs warned as early as 2022, capital recalibration alone

⁵ When a bank or other originator issues a securitisation in the EU, it is currently required to report detailed data on every underlying asset in the pool: borrower characteristics, property valuations, loan-to-value ratios, interest rate type, arrears history, geographic data, and so on. These templates were developed by ESMA after the 2008 crisis specifically to restore investor confidence by making securitisation pools fully transparent.

⁶ Undertakings for Collective Investment in Transferable Securities.

⁷ The Liquidity Coverage Ratio (LCR) is a Basel III regulatory standard requiring banks to hold enough High-Quality Liquid Assets (HQLA)—such as cash or government bonds—to survive a 30-day "run" or stress scenario.

will not revive the market, and investor demand "may remain subdued in the foreseeable future" regardless of regulatory changes.

As noted for instance by Finance Watch (2024b), the proposal creates in addition a risk of regulatory arbitrage: under the new capital floors, banks could hold less capital against securitised loans than against the underlying loans held directly — an incentive for financial engineering that cuts apparent capital requirements without reducing actual risk. Also, benefits accrue disproportionately to large internationally competing banks, cementing their intermediation dominance.

Stability concerns are compounded by the rapid growth of synthetic securitisation. By shifting credit risk from banks to non-bank financial intermediaries (NBFIs), synthetic securitisation moves risk into a more fragmented, weakly regulated domain that can amplify shocks and exert procyclical pressure in a downturn. Finally, the proposal risks a race to the bottom in global prudential standards: the proposed 5% resilient-position floor compares to 15% Basel STS (Simple, Transparent and Standardised) and 25% non-STS. The ECB (European Central Bank) November 2025 opinion concurs: the proposed calibration "appears excessive and complex" and its interaction with requirements for synthetic structures has not been adequately stress-tested.

In sum, the securitisation revival expands theoretical balance-sheet capacity but offers no guarantee that the freed capital will reach strategic investments — while introducing new risks to financial stability.

A missed opportunity to introduce conditionalities

The securitisation package was explicitly justified by the Commission and the legislators as a contribution to Europe's strategic and green transition objectives. Yet the legislative text contains no mechanism to ensure that capital freed up by securitisation is actually directed toward those objectives. An alternative model was offered by the European Green Bond Regulation (EuGB), which entered into force in December 2024 and provides a regulatory definition of green securitisation based on a use-of-proceeds principle: under the EuGB, a securitisation qualifies as "green" if the originating bank uses at least 85% of the proceeds to finance activities aligned with the European Taxonomy. The same principle is applied by the European Investment Bank in its green securitisation operations. The Banque de France and ACPR (2025) and the EESC (2025a), called for preferential prudential treatment to be made conditional on the EuGB label or equivalent use-of-proceeds commitments.

2.2 Increasing access to European venture capital

The EU venture capital (VC) market remains fragmented and much less developed than the US market: fund sizes are smaller, exit markets are thinner, and regulatory barriers prevent institutional investors such as pension funds and insurers from allocating significant capital to VC. As a result, promising European companies are systematically drawn to US markets to finance their scale-up (Albis & Rozière 2025). The SIU addresses this through two instruments:

- First, the EuVECA reform plans to revise the European Venture Capital Fund regulation to lower barriers to cross-border VC fundraising and extend the range of eligible investors, including high-net-worth individuals and a wider category of semi-professional investors. The goal is to develop a deeper pan-European VC ecosystem capable of retaining growth-stage companies that currently leave for US markets.

- Second, the Shareholders Rights Directive (SRD) revision updates stewardship rules and ESG (Environmental, Social and Governance) voting transparency in ways that could improve governance conditions for long-term equity investments, including in growth companies.

The Commission is also developing complementary measures through the European Innovation Council (EIC) and the forthcoming Competitiveness Fund. The EIC already provides blended finance — equity and grant combinations — for deep-tech companies at the frontier of what private VC will fund. The Competitiveness Fund's Digital Leadership window (€51.5 billion) explicitly targets European scale-up financing, including AI, quantum computing, semiconductors, and advanced manufacturing.

Impact on strategic investments

This strand of the SIU is addressing a real problem but only the “top” of the investment funnel, technology innovation projects that need patient equity capital, not subsidies. It does not touch the much larger category of investments with structurally low profitability: building renovation, industrial decarbonisation, grid infrastructure, biodiversity restoration. The venture capital diagnosis risks being used to justify a broader market-integration agenda that is less relevant to many other investment projects.

2.3 European Savings and Investment Accounts

The Commission published September 2025 a non-binding Recommendation in for EU Savings and Investment Accounts (EU-SIAs). These should be provider-neutral, portable accounts open to all EU citizens, with implementation left to Member States through national tax-incentive frameworks. The Recommendation names strategic EU objectives explicitly⁸. But there is no differentiated tax treatment by asset type or sector, no minimum allocation for green or strategic assets, no reporting obligation toward transition-relevant investments, and no link to the EU taxonomy. Strategic allocation is framed as a voluntary approach; an option providers may offer and retail investors may choose. The accompanying survey of existing frameworks finds a highly heterogeneous landscape: only 11 Member States have an operational framework, with assets under management ranging from under 1% of GDP (Denmark, Finland, Italy) to 29.8% (Sweden). Evidence shows that the most successful SIAs such as the Swedish one impose no geographical or class asset constraints, meaning a broadly designed EU-SIA will have a global and not European.

Impact on strategic investments

A well-designed EU-SIA will successfully pool retail savings; the evidence from existing national schemes shows it will channel them toward liquid, large-cap European assets, not toward the underserved middle of the investment landscape. The recommendations can help mobilise savings, but it will not direct them where they are needed. The core legal constraint is fundamental: internal-market harmonisation cannot mandate capital allocation without conflicting with fiduciary-duty rules across 27 national systems. The SIU's explicit ambition is to redirect European savings toward European investments, and the underlying assumption is that European financial markets should be just as attractive to global investors as their US competitors.

⁸ Point 17 specifies that Member States "should strongly encourage providers to include investment options that allow retail investors to channel their investments into the EU economy to contribute to strategic EU priorities, including the digital, green and social transitions, and the strengthening of EU security and defence."

2.4. Supplementary Pensions Package

The Supplementary Pensions Package, published in November 2025, is the SIU's instrument for mobilising long-term household savings through the pensions system in cases where a capital pillar exists, as in Netherlands or the Nordic countries. It has two main components. The revision of the IORP II Directive (Institutions for Occupational Retirement Provision) introduces auto-enrolment provisions requiring employers to automatically enrol eligible workers in pension schemes. Auto-enrolment has a strong evidence base from the UK and other countries: it significantly increases participation rates among lower- and middle-income workers who would otherwise not save. The revision also strengthens the investment governance framework for pension funds, including requirements around long-term investment strategies and, in principle, ESG integration.

The second component is a revision of the Pan-European Personal Pension Product (PEPP) regulation, first adopted in 2019 but largely dormant due to a mismatch between its cost caps and provider business models. The revised PEPP aims to make the product viable by adjusting the fee ceiling and simplifying the portability and switching rules, so that savers can maintain their PEPP when moving between Member States. The ambition is to create a genuinely pan-European retail pension product that pools long-term savings and channels them into EU capital markets, reducing the current fragmentation of pension saving across 27 national frameworks. Like the EU-SIA Recommendation, the pensions package leaves allocation guidance entirely voluntary.

Impact on strategic investments

The pensions package aims at expanding the supply of long-term patient capital in EU markets. Pension funds are natural holders of long-duration, illiquid assets — exactly the type of financing that infrastructure, renewable energy, and industrial transformation projects require. Auto-enrolment, if implemented broadly, could significantly increase assets under management in occupational pension funds over a 10–15 years horizon, and PEPP reform could eventually contribute a modest additional pool of retail long-term savings. In this sense, the pensions package addresses a real supply-side gap in long-duration capital.

However, as pension funds invest according to fiduciary duty and risk-return criteria; expanded pension savings will flow into liquid, diversified portfolios, often dominated by US equities and large-cap bonds. The case of Danish occupational pension funds illustrated the difficulty: early 2026, funds such as PFA Pension or AkademikerPension announced a reduction of their exposure to US markets, Fed bonds and dollar-denominated positions, but deemed a complete divestment unrealistic. A quarter of all Danish pension fund assets is still invested in the US (up from 16% in 2018), which is more than their holdings of European assets. The upshot is that the pensions package can grow the pool of long-term capital, but in the absence of allocation guidance it will not bring that capital home or align it with EU priorities.

2.4 Integration of European financial markets

The Market Integration Package, published in December 2025, restates the long-standing diagnosis that fragmentation of European capital markets across 27 national jurisdictions imposes significant costs, creates barriers to cross-border investment, and prevents the development of competitive financial infrastructure at EU scale. The dossier is politically sensitive as member States tend to protect their national banking and financial ecosystems, as illustrated by the little progress made by the Capital Markets Union since its launch in 2015. The main measures try to remove obstacles to

market integration and leveraging scale, for instance introducing a Pan-European Market Operator (PEMO) status for operators of trading venues; streamlining the cross-border distribution of investment funds; and harmonisation of post-trade infrastructure covering settlement rules, CSD interoperability, and clearing arrangements.

The package also develops common ESG standards under ESMA coordination to reduce greenwashing risks and improve comparability of sustainable finance products. These proposals have met resistance from smaller financial centres — Luxembourg, Ireland and the Netherlands — whose competitive models depend on national-level supervisory flexibility. The extent of ESMA's direct powers is expected to be a central point of contention in trilogue.

Impact on strategic investments

Supervisory convergence and common ESG standards are among the more substantive reforms in the SIU and will reduce regulatory arbitrage. Reducing fragmentation might also lower transaction costs and increase cross-border investment. But integration is a necessary condition for a functioning capital market union; it is not sufficient to redirect capital toward strategic objectives. A more integrated European capital market will, absent other measures, channel savings more efficiently toward the highest short-term risk-adjusted returns.

2.5 Supervisory convergence

The Commission's long-term vision is a single supervisory framework for EU capital markets, echoing the Banking Union model, though current proposals stop well short of that goal. The immediate measures reinforce the convergence tools of the three European Supervisory Authorities — ESMA, EIOPA, and EBA — through stronger peer review mechanisms, enhanced powers to issue binding technical standards, and expanded supervisory convergence assessments. In selected areas, the December 2025 Market Integration Package moves toward direct ESMA supervision of cross-border CCPs and CSDs, marking a qualitative step beyond mere convergence.

A significant legacy dossier incorporated into the SIU is the Crisis Management and Deposit Insurance (CMDI) reform (finalised June 2025), which revises the BRRD (Bank Recovery and Resolution Directive), SRMR (Single Resolution Mechanism Regulation) and DGSD (Deposit Guarantee Schemes Directive). It strengthens the resolution framework for banks — broadening application to smaller and regional banks — and reinforces the bail-in principle. However, the European Deposit Insurance Scheme (EDIS), the long-missing third pillar of the Banking Union, remains politically blocked. Without EDIS and a fully operational resolution backstop, bank risk remains renationalised, cross-border banking consolidation is inhibited, and the confidence needed for EU-wide investment products to serve as genuine alternatives to national deposits is absent. The IMF (International Monetary Fund) (2025) and the ESM (European Stability Mechanism) Managing Director (2025) both identify this incompleteness as a binding constraint on SIU ambitions.

Two further dossiers are currently in pre-legislative phase. The SFDR (Sustainable Finance Disclosure Regulation) revision and ESG product norms (announced for 2025–2026) aim to define "sustainable investment" with greater precision, tackle greenwashing, and improve product comparability. The Shareholders Rights Directive (SRD) revision and EuVECA reform (planned Q3–Q4 2026) would update stewardship rules, ESG voting transparency, and the venture capital framework. Both represent active advocacy windows ahead of Commission proposals.

Impact on strategic investments

Stronger ESA mandates, common ESG standards, and progress on the Banking Union are genuinely useful reforms for continuous integration within the EU Single Market. The completion of EDIS in particular would be a significant step: it would enable cross-border banking consolidation, reduce the home-bias that channels savings into national sovereign debt rather than productive EU-wide investment, and provide the confidence foundation for EU-wide investment products. That said, convergence removes “frictions”, it does not install direction. Even within a fully converged EU supervisory framework, allocation criteria would continue to systematically disadvantage the long-horizon, low-profitability investments the transition requires.

3. Beyond the SIU: public finance, financial regulation, and monetary policy

The assessment given above is not surprising as the Commission itself acknowledges that “enabling frameworks are necessary but not sufficient”. One of the reasons for limitations observed above is the fact that SIU’s legal basis, internal-market harmonisation, limits its ability to mandate private capital allocation. The situation became worse recently still with the weakening of standards and guiding tools such as CSRD (Corporate Sustainability Reporting Directive), CSDDD (Corporate Sustainability Due Diligence Directive) or the “do no significant harm” principle as a result of the long series of Omnibus packages. The following sections highlights three complementary ways to mobilise finance toward EU’s strategic objectives: better of blended finance instruments, supportive financial regulation and active monetary policy.

3.1. Steering financial flows through public and blended finance

Public subsidies, guarantees and associated financial instruments remain practically the only tool for driving investment in strategic direction and co-opting private finance. European and national promotional banks and financial institutions are bound to play a central role as implementing partners but need more financial firepower, whereas State funding remain constrained by high debt levels and fiscal rules of the Stability Pact. Hence the commitment of the Commission to increase the sums available through the current InvestEU fund and the future Competitiveness Fund.

A key question is how efficient public funds will be used. EU’s policies for blended-finance should avoid flaws observed in development finance, where the private commitments remain low, procyclical and concern mostly lower-risk projects. One common misconception in development finance has been that modest de-risking can redirect private capital at the required scale and duration, ignoring the structural constraints on institutional capital: benchmark-driven performance metrics, fiduciary duties, and systematic preferences for liquidity, scale and creditworthiness (Convergence, 2024; Mazzucato & Vieira de Sá, 2025). European public investors and co-investors should do more than derisk private finance, they should build the investment partnerships on four key principles:

- **Directionality**, tying concessional terms to concrete conditions, for instance green procurement, technology-sharing, reinvestment covenants, local supply-chain commitments or public equity stakes letting the EU share upside on de-risked investments.
- **additionality beyond leverage** — success measured by qualitative shifts (new asset classes, domestic pipeline capacity, technology diffusion), not by headline private capital mobilised;

- **fair risk-reward sharing**, where public actors bear downside risk, they should share upside through fees, profit-sharing, equity, royalties or clawbacks;
- **transparency and governance** — legislative oversight and mandatory disclosure of contingent liabilities on public balance sheets.

3.2 Steering financial flows through financial regulation

Financial regulation can play a complementary and supportive role to policies discussed above, in various ways (see also Carré, Couppey-Soubeyran, et alli 2022 for details):

- **Conditionalities and the use-of-proceeds principle.** The securitisation package presented in the previous section was explicitly justified by the Commission as a contribution to Europe's strategic and green transition objectives. Yet the legislative text contains no mechanism to ensure that the capital freed up by securitisation is actually directed toward those objectives. The European Green Bond Regulation (EuGB), which entered into force in December 2024, already provides a regulatory definition of green securitisation based on a use-of-proceeds principle: under the EuGB, a securitisation qualifies as "green" even when backed by non-sustainable underlying claims, provided the originating bank uses at least 85% of the proceeds to finance activities aligned with the European Taxonomy. The Banque de France and ACPR, in a position paper published in early 2025, explicitly advocated for green securitisation as the mechanism through which the SIU revival could be made to serve the ecological transition — and proposed that preferential prudential treatment be made conditional on the EuGB label or equivalent use-of-proceeds commitments.
- **Pillar 2 prudential incentives for banks**, using the existing supervisory review process to push individual banks toward climate alignment without changing the formula-based Pillar 1 capital ratios. The ECB has already moved in this direction by requiring banks to disclose their climate risk exposures and by warning that institutions failing to develop credible transition plans will face supervisory consequences.
- **Other macroprudential tools**, such systemic risk buffers under CRD V and countercyclical buffers.
- **Sector-specific prudential tools**, building on the existing infrastructure support factor.
- **Remuneration schemes for asset managers**, bank executives and insurance company managers, whose compensation includes large variable (bonus) components : extending deferral periods for variable pay beyond three years and integrating climate-impact indicators into variable compensation would reduce the incentive to prioritise short-term performance over long-term climate alignment.
- **More radically, a new definition of fiduciary duty**, integrating climate risks and climate impacts (double materiality) alongside financial returns, across AIFMD (Alternative Investment Fund Managers Directive), UCITS, MiFID II (Markets in Financial Instruments Directive II), Solvency II and the IDD (Insurance Distribution Directive).

3.3 Steering financial flows through central bank policies

Central banks hold a distinctive set of tools that can influence both the direction and the cost of investment finance, without requiring new public expenditure (see Couppey-

Soubeyran, 2020). The policy options range from classical measures such as banking supervision to more controversial ones such as preferential refinancing of public investors.

- **Banking supervision and transition plans.** The ECB's bank supervision arm (SSM) already requires significant institutions to identify and disclose their climate-related financial risks, and has made climate risk a supervisory priority for 2024–2026. The CRD VI / CRD V revision adopted in 2024 already requires management bodies to integrate ESG (Environmental, Social and Governance) risks into governance and transition plans. The next step is requiring banks to develop binding transition plans as part of the Supervisory Review and Evaluation Process (SREP): supervisors would require each bank to demonstrate, through its individual SREP assessment, that it has adopted a net-zero lending objective, developed a five-year transition plan, and integrated climate criteria into credit decision processes. Banks that cannot satisfy supervisors on these points would face Pillar 2 capital add-ons.
- **“Tilting” and active management of the collateral framework.** The ECB's collateral framework — the rules governing which assets banks can pledge to obtain central bank liquidity — is one of the least visible but most pervasive instruments of monetary policy. Any asset the ECB accepts as collateral benefits from an implicit form of central bank endorsement: it is treated as sufficiently safe and liquid to serve as the foundation of bank liquidity management. The current framework applies haircuts based on credit rating and asset type, but not on climate alignment. A tilted collateral framework would introduce two adjustments. First, preferential haircuts (lower discounts) for green bonds, sustainability-linked bonds, and covered bonds backed by energy-efficient mortgages — assets already tracked under the EuGB (European Green Bond) Regulation — would reduce the cost of holding green securities for banks and increase demand for them. Second, progressive exclusion or higher haircuts for high-carbon assets (fossil fuel bonds, bonds from companies without credible transition plans) would raise the relative cost of holding brown collateral, restructuring bank balance sheet incentives without requiring direct capital requirements.
- **Preferential refinancing for green or strategic investments.** Central banks provide liquidity to commercial banks through refinancing operations — the ECB's main refinancing operations (MROs) and TLTROs (Targeted Long-Term Refinancing Operations). A differentiated refinancing rate would directly reduce the cost of capital for the priority lending the SIU is intended to encourage, without any impact on public budgets. The precedent exists: TLTRO III (2020–2021) offered below-market rates conditional on lending volumes, demonstrating that targeted conditionality is operationally feasible and legally uncontested within the ECB mandate. The key design question is conditionality: a green TLTRO should be conditional on the bank's portfolio alignment with the EU taxonomy, measured through loan-level climate indicators, and should exclude refinancing of fossil fuel assets.
- **Targeted bond purchases.** Purchasing specific class assets, for instance bonds linked to InvestEU-accredited programmes or EIB-certified projects, would lower borrowing costs for these assets and create a monetary-fiscal coordination mechanism without financing the States directly.
- **Protecting sovereign debt and reducing borrowing costs.** A central bank can try to contain the market pressure of sovereign debt cost in several ways,

targeted bond purchase being one of them. Another way is by maturity extension: concentrating reinvestment purchases on very long-dated bonds (15, 25 or 50-year maturities) or progressively converting holdings into perpetual bonds reduces rollover risk and lowers the premium on long-duration public debt — exactly the tenure structure that grid infrastructure, industrial decarbonisation and building renovation require.

- **Preferential refinancing of public investors.** The most ambitious proposal is coordinated financing between the ECB and public development banks and financial institutions. Rather than channelling strategic investment finance through sovereign debt issuance on the financial markets — which triggers sovereign risk premia and counts against deficit rules — a coordinated structure would have national promotional banks or the EIB issue dedicated green or strategic bonds, which the ECB would purchase or guarantee on the secondary market.

List of Abbreviations

- ABS** — Asset-Backed Securities
- AIFMD** — Alternative Investment Fund Managers Directive
- AI** — Artificial Intelligence
- BIS** — Bank for International Settlements
- BITD** — Base Industrielle et Technologique de Défense (French defence industrial base)
- BRRD** — Bank Recovery and Resolution Directive
- CCPs** — Central Counterparties
- CfDs** — Contracts for Difference
- CLOs** — Collateralised Loan Obligations
- CMDI** — Crisis Management and Deposit Insurance
- CQS** — Credit Quality Step
- CRD / CRD V** — Capital Requirements Directive (version V in force since 2025)
- CRR** — Capital Requirements Regulation
- CSDDD** — Corporate Sustainability Due Diligence Directive
- CSRD** — Corporate Sustainability Reporting Directive
- CSDs** — Central Securities Depositories
- DGSD** — Deposit Guarantee Schemes Directive
- EBA** — European Banking Authority
- EC** — European Commission
- ECB** — European Central Bank
- ECNO** — European Climate Neutrality Observatory
- EDIS** — European Deposit Insurance Scheme
- EEA** — European Economic Area
- EESC** — European Economic and Social Committee
- EIB** — European Investment Bank
- EIC** — European Innovation Council
- EIF** — European Investment Fund
- EIOPA** — European Insurance and Occupational Pensions Authority
- EP** — European Parliament
- EPRS** — European Parliamentary Research Service
- ESA / ESAs** — European Supervisory Authority / Authorities (EBA, EIOPA and ESMA jointly)
- ESG** — Environmental, Social and Governance
- ESM** — European Stability Mechanism
- ESMA** — European Securities and Markets Authority
- ESRB** — European Systemic Risk Board
- ETS** — EU Emissions Trading System
- ETUC** — European Trade Union Confederation
- EU-SIA** — EU Savings and Investment Account
- EuVECA** — European Venture Capital Fund (regulation)
- EVs** — Electric Vehicles
- FSB** — Financial Stability Board
- GDP** — Gross Domestic Product

I4CE — Institute for Climate Economics (Paris)
IDD — Insurance Distribution Directive
IMF — International Monetary Fund
IORP II — Institutions for Occupational Retirement Provision Directive (revised)
IPCEI — Important Project of Common European Interest
LCR — Liquidity Coverage Ratio
MiFID II — Markets in Financial Instruments Directive II
NBFIs — Non-Bank Financial Intermediaries
NGFS — Network for Greening the Financial System
NZIA — Net-Zero Industry Act
PEMO — Pan-European Market Operator
PEPP — Pan-European Personal Pension Product
QE — Quantitative Easing
SFDR — Sustainable Finance Disclosure Regulation
SIAs / EU-SIAs — Savings and Investment Accounts / EU Savings and Investment Accounts
SIU — Savings and Investments Union
SMEs — Small and Medium-sized Enterprises
SPV — Special Purpose Vehicle
SRD — Shareholders Rights Directive
SRMR — Single Resolution Mechanism Regulation
SRT — Significant Risk Transfer
STEP — Strategic Technologies for Europe Platform
STS — Simple, Transparent and Standardised (securitisation label)
SWD — Commission Staff Working Document
TFEU — Treaty on the Functioning of the European Union
TLTRO — Targeted Long-Term Refinancing Operation
UCITS — Undertakings for Collective Investment in Transferable Securities
VC — Venture Capital

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