

Comparing the Progress, Risks, and Benefits of the Capital Markets Union: Germany, the Netherlands, Hungary, and Poland

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Submitted to Central European University - Private University
Department of Undergraduate Studies

*In partial fulfilment of the requirements for the degree of
Bachelor of Arts in Philosophy, Politics and Economics (PPE)
Major: Economics*

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Vienna, Austria
2025

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Vienna, 26 May 2025

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ABSTRACT

Ten years after its launch, the Capital Markets Union (CMU) remains an unfinished project. Despite a renewed attempt under the rebranded “Savings and Investment Union” and strong political backing from figures like Macron, Scholz, Letta, and Draghi, progress has been uneven. This thesis evaluates which legislative reforms have been implemented since the CMU’s inception, their impact on financial integration and capital market development, and where integration efforts have stalled or even regressed. It also examines who stands to benefit most from the CMU by comparing the more developed capital markets of Germany and the Netherlands with the less developed markets of Poland and Hungary. Through a mixed-methods approach combining legislative analysis, quantitative indicators, and comparative case studies, the thesis finds that while there has been some progress in financial integration and development, current levels do not exceed pre-financial crisis peaks. The CMU promises to deliver benefits for major Western European Economies. For Central and Eastern European countries, the direct benefits remain limited, as the project is misaligned with the economic structures of the region. Nevertheless, these countries may still benefit indirectly from spillover growth effects originating in Western Europe.

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Introduction

The third time is the charm with the Capital Markets Union (CMU), or is it? After launching the project twice (in 2015 and 2020) with mediocre progress, the European Commission has once again revived the project, this time under the new title “Savings and Investment Union.”¹ The recent relaunch was preceded by a range of politicians advocating for capital market integration in an effort to boost European growth and competitiveness, one example being the “We must strengthen European sovereignty” opinion piece of French President Macron and former German Chancellor Scholz (2024). Both Enrico Letta’s report on the EU single market (2024) and Mario Draghi’s report on “The Future of European Competitiveness” (2024) extensively cover capital market integration as a building block in strengthening the European economy.

With the CMU project being already 10 years old, this thesis will take a closer look which legislative reforms have been implemented, what effect they had on capital market integration, and where progress is lacking. Furthermore, with the merits of the CMU being extensively praised, this thesis will analyse who will benefit from the project. I will compare the Netherlands and Germany as examples of Western European countries that have relatively developed capital markets with the less developed markets of Poland and Hungary.

This thesis will start with a short section on the methodology used, followed by an extensive literature review that will cover the general relationship between financial integration, development and growth, as well as the specific implications for the European Capital Markets Union. The thesis will continue with a section analysing the legislative progress made towards financial integration and development, showing that there have been legislative attempts to integrate and deepen capital markets, but that there have also been reforms that have weakened capital markets. This is followed by a section assessing the actual quantitative progress these reforms resulted in, showing some

¹ The two terms can be regarded as meaning largely the same. For the sake of clarity and consistency, I will only use the term Capital Markets Union and its abbreviation in this thesis.

increase in capital market integration and depth, but no development that goes beyond previous peaks of integration and depth that could be seen before the financial crisis.

Before concluding, this thesis will deliberate on the benefits of the CMU for Western and CEE Member States based on the literature and data of the previous sections. In that section it is argued that the Capital Market Union would deliver significant benefits to large Western European economies like Germany and the Netherlands. For Eastern European economies like Poland or Hungary, the direct benefits of the CMU are very limited, as the project is misaligned with the economic structures of the region and can thus not deliver on a structural and sustainable improvement on the competitiveness of Eastern European economies. Nonetheless, spillover effects through the transfer of growth from Western European economies can be expected.

Methodology

This thesis uses a mixed methods approach based on the analysis of diverse literature combined with available quantitative indicators. Through a comparative case study, this thesis studies the implementation and effects of CMU-related reforms with regard to financial integration and financial development. The comparison includes four EU Member States — Germany, the Netherlands, Poland, and Hungary — to contrast Western European economies with developed capital markets and Central and Eastern European (CEE) economies with less developed ones. Those specific countries are used as they provide insightful examples of their respective side of the comparison, whilst being large and developed enough to provide the opportunity to extrapolate from their situation to their respective reference group.

An extensive review of academic literature, policy papers, newspaper articles, and official publications by European and national institutions is used to create an insightful account of the current situation and juxtapose developments in different Member States. Key sources include reports from the European Commission, the European Central Bank, and Member State institutions. These primary and secondary sources are complemented by data from the World Bank, national central banks, and financial market authorities to underpin the material from a quantitative perspective. The selection of literature and data sources was guided by their relevance to the key dimensions of the CMU, including regulatory implementation, financial market development, retail investment participation, and cross-border integration.

For the empirical part, the thesis analyses publicly available indicators on financial integration and financial development such as capital market depth and liquidity (e.g. stock market capitalisation to GDP, turnover ratios), financial structure (e.g. share of equity vs. debt financing), and integration (e.g. ECB composite indicators, AFME cross-border finance indicators).

Financial Integration, Development, and Growth

The CMU policy agenda envisions reforms in three core areas: Increasing financing access for firms, integrating the financial markets and reducing barriers to cross-border investment, as well as increasing the supply of capital (European Commission 2020). Planned measures include further harmonisation of insolvency frameworks, the strengthening of loan securitisation, the establishment of a consolidated tape for trading data, the rollout of the European Single Access Point (ESAP), and the development of a deeper retail investment culture across the EU (Langenbacher 2020).

The CMU thereby has a twofold objective: financial integration and financial development. There is significant overlap between the two, but there are also aspects of the CMU that are only aimed at one of the two objectives. Financial integration is by definition a European project, whilst financial development is not necessarily. Financial development can be pursued as a national project, but beyond a certain degree of development, integration becomes necessary for further development, as the national markets would not have the critical size to be relevant on their own. This two-fold objective has spurred some criticism, with for example Haerter (2020) claiming that the CMU does not actually constitute an integration project, but is rather just a push for financialisation. Others see this twofold purpose as a benefit, with Ignazio Angeloni writing “An insufficiently appreciated feature of the CMU plan is that it combines two goals in one: strengthening non-bank finance and financial integration. The two goals are not the same and it is not clear that a single set of policies can deliver both at the same time” (2024, 2). As Quaglia and Howarth (2018) observe, depending on the audience, policymakers put a different focus on financial development and financial integration when selling CMU.

The main argument of the Commission and other proponents of the CMU in favour of the project is its effect on economic growth, with the 2020 CMU Action Plan noting “Market financing will be the lifeblood that sustains the recovery and future growth over the long-term” (European

Commission 2020, 3). Indeed, several studies establish a general positive correlation between general financial development (including both banks and capital markets) and growth (Levine 2003; 2004; Beck and Levine 2004; Madsen and Ang 2016). As Bossone and Lee (2004) show, bigger financial systems result in lower costs and higher risk absorption for the financial intermediaries active in these systems. Applied to the European financial systems, an integrated financial system would thus be more efficient than national financial systems, as it can use systemic economies of scale.

Whilst for example Levine (2002) argues that there generally is not much of a difference between the growth induced by bank-based financial development and market-based financial development, others argue that in some cases, the effect of capital markets is more pronounced. Demirguc-Kunt et al. (2012) for example argue that in more developed economies, the growth-inducing effect of banks becomes smaller in comparison to the effect of capital markets. Similarly, Cournède et al. (2015) and Cournède and Denk (2015) write about negative effects of increased bank finance on growth compared to positive growth effects of capital market finance. This is in line with the work of other authors, who described negative effects on growth when financial development reaches a certain threshold (Arcand, Berkes, and Panizza 2012; Cecchetti and Kharroubi 2012; 2015). Rajan (2005) further addresses the increased risk that comes with financial development in general while Bats and Houben (2017) from the National Bank of the Netherlands found market-based financial structures to be more resilient towards systemic risks compared to bank-based systems. Zingales (2015) writes about the public distrust in finance in light of fraud, speculation, and a disproportionately growing finance sector. The research of Gambacorta et al. (2014) is also noteworthy, writing about the positive effect of bank finance in a recession, where banks cushion the effects, as long as the recession does not coincide with a financial crisis, where banks worsen the economic problem. In part, the growth potential of financial markets lies in its ability to finance innovative firms that have a high growth potential but are also very risky. Black and Gilson (1998) show that market-based economies have a higher availability of venture capital, as the financial

markets provide better exit opportunities for venture capital firms. Didier et al. (Didier et al. 2021) show an association between capital market financing and firm growth, especially for innovative companies.

The relevance of the growth and risk-sharing through financial development and integration arguments hold for the Capital Market Union. Many academics support those arguments, arguing that the EU financial structure is bank-heavy (Pagano et al. 2014; European Central Bank 2024), and that the CMU would have positive effects on growth (Alexander 2015; Grimm et al. 2023; Davoine et al. 2019; Heider et al. 2024) and risk-sharing (Martinez, Philippon, and Sihvonen 2022; Hoffmann et al. 2019). Other academics however are more critical of the CMU, citing the risk of short-termism (Ertürk 2015; Pesendorfer 2015) or claiming that the CMU actually would not benefit SMEs (Pesendorfer 2015). Potential risks and benefits aside, as Véron and Wolff (2016) write, the CMU is not to be seen as a quick fix for momentary economic stimulus, as it is a project that will produce benefits in the long term, as the financial system will not change quickly.

Either way, the CMU is on the political agenda both on the EU level and in the Member States, with the EU reheating the idea for a third time in 2025 with the rebranding as “Savings and Investment Union” (after the original 2015 green paper with its accompanying action plan and consultation, and the 2020 action plan with its consultation). There are several publications that track the progress of the CMU, for example the ECB’s bi-annual “Financial Integration and Structure in the Euro Area” reports (2024) or AFME’s annual CMU-KPIs (2024b). There have also been non-recurring progress reports on the CMU, such as Sapir et al. (2018) or the *New Financial Report* on the CMU (Bierbaum, Breen, and Wright 2024).

Implementation of the CMU can be categorised as either top-down, where EU institutions lead integration through binding regulation and harmonisation, or bottom-up, where Member States and market participants drive progress through voluntary alignment and development. Whether progress on the CMU is best made with a top-down or bottom-up approach is a topic of

disagreement among policymakers. ECB President Lagarde advocates for a top-down approach, as she considers the bottom-up approach to be failed (Lagarde 2023), whilst the German and French governments called for a bottom-up approach in their joint roadmap for the CMU (Bundesministerium der Finanzen 2023b, 3). EUROFI (2024) collected a range of opinions on the right approach, ranging from bottom-up (Eva Wimmer, German Federal Ministry of Finance), to top-down (Dušan Hradil, Czech Ministry of Finance) to a mixture of both (e.g. Paschal Donohoe, Eurogroup President). Heider et al. (2024) come to the conclusion that it does not matter whether integration is achieved through a top-down approach of institution-building or a bottom-up approach of regulatory competition, as national interests and the reluctance to give up sovereignty are the main obstacles either way.

The dynamics of national interests are especially visible when another CMU step forward fails due to national opposition (Foy, Hancock, and Tamma 2024). Quaglia (2010) has written about the different policy coalitions that call for financial integration either through liberalisation or through re-regulation at the EU level. Quaglia et al. (2016) showcased the different national perspectives during the consultation on the first CMU green paper of 2015. More recently, Brenner (2021) covered the lack of supervisory integration in light of the CMU. Piroška and Epstein (2023) looked at the reasons of Eastern European Member States to opt-out of CMU policy, due to their different financial structure (e.g. high share of foreign bank ownership, less developed capital markets).

Most literature on capital markets is focused on developed Western economies, providing limited perspective on the specifics of the Central and Eastern European countries. However, there has been some literature focusing on the financial integration of new Member States after their accession like Batten et al. (2006) or Dvorak (2007). CEE economies thereby emerged as “dependent market economies”, characterised by high levels of foreign ownership and foreign direct investment (Nölke and Vliegenthart 2009). Bohle (2018) describes the emergence of an export-driven growth model in the Visegrád countries following their EU accession, and how this

has helped them in recovering from the financial crisis. This dependence in its economic structure and its effect on European financial integration is further examined in Dal Maso (2022) or Piroška and Epstein (2023).

This thesis adds to the literature through a specific comparison between select Western and CEE economies. By taking stock of academic literature, data, official documents as well as positions taken by interest organisations, this thesis aims for a comprehensive account of the current progress of the CMU in terms of legislative progress and actual measurable change. In doing so, this thesis aims to inform on the implications of the CMU on a regional level, shedding light on the different situations and perspectives of Member States in this integration project.

Financial Market Characteristics in Germany, the Netherlands, Hungary, and Poland

Germany

Germany has a very bank-based financial system. The financial structure of German firms is heavily based on loans, with less than half of the firms' financing being based on equity, much less than in other big developed economies (zeb and Association for Financial Markets in Europe 2024, 17). The German economy thereby relies on a very diversified banking sector, where the top 5 banks only account for a third of the business, the second lowest bank concentration in Europe (European Central Bank 2025b)². This is due to large commercial banks only being one of three German banking pillars, with the traditionally strong public savings banks and cooperative banks being the other two pillars.

A significant part of the equity of the firms is furthermore not available to the market but instead tied up with fixed owners, with the free float of shares for listed firms being only 56%, compared to over 90% in the UK or the US (zeb and Association for Financial Markets in Europe 2024, 25). In general, the stock market is less relevant to the economy than in other developed economies of a similar scale, with the stock market capitalisation to GDP being at approximately 41% in 2024 (Statista Market Insights 2025b). The stock market turnover ratio that has fluctuated between 60% and 90% in recent years suggests decent liquidity in the German financial markets, albeit lower than very capital-market-focused economies like Japan, South Korea, or the US (World Bank 2025e). Due to the smaller size and liquidity of the German capital markets, significant initial public offerings of German companies regularly took place on American exchanges (zeb and Association for Financial Markets in Europe 2024, 33).

² The World Bank supplies different data on the bank concentration (World Bank 2025a), putting the concentration much higher. This data however cannot be correct and could possibly result from counting the cooperative banking sector and the public banking sector as one bank, respectively.

Germany has a pay-as-you-go pension system, thus the supply of capital in Germany lacks the magnitude of equity-based pension systems. Equity-based pensions are usually supplementary private or occupational pensions. The ratio of pension fund assets to GDP is thus rather low, at 8.2% in 2020, but has seen a steady increase from 3.3% in 2001 (World Bank 2025c). The German pension system is ranked mid-table in the Global Pension Index, mainly because of its low sustainability (Knox 2024, 42).

Generally, despite its high household saving rate of almost 20%, the household investment rate is only half of that, at 10% (European Commission 2024). Germans comparably are not very invested in capital markets. Financial assets constitute 22.5% of the total assets of German households (European Central Bank 2023). Thereof, over 40% are held in bank deposits, even if the rate of bank deposits to GDP has been decreasing for the past 50 years (World Bank 2025b). Further 23% are held in insurance, including supplementary pension schemes. 27% are held in equity, mainly in stocks and mutual fund shares (Deutsche Bundesbank 2023). According to data gathered by the Deutsches Aktieninstitut, more men than women are invested in equity, the share of Western Germans invested in equity is higher than the share of Eastern Germans, and people with high incomes are invested in equity to a wider extent (Fey and Gierlich 2025, 20–23).

With the lack of a financial market-based pension system, the insurance sector plays an important role in the German capital market. German insurers have a balance sheet of approximately €2 trillion, of which roughly 20% are invested in equity and equity funds. Further 20% are held as debt funds or loans. 17.5% are held as government bonds and 26.5% as corporate bonds (European Commission 2019a). The equity exposure of German insurers is higher than the EU average.

The Netherlands

The financial structure of firms in the Netherlands leans more heavily on equity, with 60% of the financing being based on equity, with another 33% being bank loans (OECD 2025). The Dutch banking sector is significant, but very consolidated, with a 5-bank concentration of 82%, mainly due to the dominance of ING, Rabobank, and ABN Amro (European Central Bank 2025b). The bank deposits to GDP ratio is comparably high at 105%, even higher than the German ratio (World Bank 2025b). Nonetheless, the Dutch financial system is more market-based than the German one, with stock market capitalisation to GDP being around 146% in 2024 (Statista Market Insights 2025b). The turnover ratio has historically been similar to Germany, being around 60% in 2014³, indicating decent, but not outstanding liquidity (World Bank 2025e). The number of IPOs at the Euronext Amsterdam Stock Exchange has been rather low compared to other stock exchanges in Sweden, Italy or France, much lower than for example the United Kingdom or the United States (Statista Market Insights 2025a).

The Netherlands has a hybrid pension system that is based on three pillars: a state-administered pay-as-you-go system, mandatory equity-based occupational pensions, and voluntary private pensions (Dutch Federation of Pension Funds 2025). It is ranked as the best pension system in the world by a Mercer/CFA Institute Study, based on a high level of benefits, and a sustainable structure (Knox 2024, 43). Due to the prominence of the equity pillars of the Dutch pension system, the Netherlands has a very high ratio of pension funds to GDP of approximately 180%-190% of GDP in recent years (World Bank 2025c; De Nederlandsche Bank 2025), thus being able to generate a lot of demand for equities through its pension system. The Netherlands has a household saving rate of approximately 15% and a household investment rate of just below 13% (European Commission 2024). Financial assets constitute 20.5% of the total assets of Dutch

³ Later data on Dutch stock market turnover is not available, as the World Bank and other platforms only have data up until 2014. Euronext publishes both monthly trading volumes and market capitalisation that would allow for calculating the turnover ratio, but due to Euronext operating stock exchanges across Europe, a specific measure for the Netherlands is not feasible.

households, with residential property accounting for most of the remaining 80% (European Central Bank 2023, 22–23).

The financial assets consist of over 60% of deposits, with approximately 25% being held in equity and 10% in voluntary pension and life insurance (European Central Bank 2023, 24). Approximately a quarter of the Dutch population reports to own equity investments, seeing a steady increase throughout the past 10 years (Elsen, Feher, and Leenen 2024, 4). Equity investments are higher among younger people, more men (31% of the male population) than women (19% of the female population) are invested in equity, and the share of those invested in equity is higher among those with high incomes, with half of those earning more than €3,000 a month being invested in equity (Elsen, Feher, and Leenen 2024, 5). The insurance sector plays a less important role in the Dutch financial market than the pension funds, but with a balance sheet of €350 billion, the sector is still an important institutional investor. Compared to the EU average, Dutch insurance companies invest a lower share of their balance sheet in equity and equity funds, at only 8%. The exposure to corporate bonds is also lower than the EU average, at 14%. The remainder is mainly held in government bonds (35%) and loans (26%) (European Commission 2019c).

Poland

Poland's economy is in general very bank-based, but with a developing capital market. The financial structure of firms consists of around 45% equity, which is mostly made up of unlisted shares and other equity, with only 10% of the financial structure of non-financial firms being based on listed shares (OECD 2025). Bank deposits to GDP have been steadily rising since 1990, reaching 60% in 2021, lower than in Western Europe and also slightly lower than most other CEE countries (World Bank 2025b). The bank concentration is relatively low, being at 58% in 2023 (European Central Bank 2025b). The Polish capital market sector is developing, but in its relevance to the overall economy, it has stagnated around 30% of capitalisation to GDP in recent years (World

Bank 2025d). Stock market turnover compared to capitalisation has similarly been rather low, fluctuating around 30% throughout the 2010s (World Bank 2025e), indicating low liquidity. The Polish capital markets used to be stronger, but a 2013 pension reform resulted in the withdrawal of securities from the market (Bilefsky and Zurawik 2013). There have been occasional IPOs (Statista Market Insights 2025a), including some major ones, but there have also been significant delistings and listings of Polish companies on foreign stock exchanges (Minder 2024; The Economist 2024). Currently, the Warsaw Stock exchange is “dominated by state-controlled banks and energy firms” (The Economist 2024), with the head of the Warsaw Stock exchange saying “Foreign investors got less attracted to our stock market and lost some trust, especially due to concerns related to governance in some state-owned companies” (Minder 2024).

The Polish pension system is based on a pay-as-you-go system with a mandatory equity-based component that receives 2.3% of the taxable income (approximately 12% of the total contribution) (Pension Funds Online 2025). The rate of pension fund assets to GDP is currently at approximately 7% (World Bank 2025c), thus quite low, but in line with other countries that have pay-as-you-go pension schemes. The Polish pension system is ranked 30th out of 48th in the Global Pension Index, citing the need for an increase in the equity component of the pension scheme as well as a higher minimum level of support for poor pensioners (Knox 2024, 44). The Polish household saving rate is among the lowest in Europe at less than 3% (European Commission 2024). Likewise, the investment rate of Polish households is relatively low, at 6% of gross disposable income (European Commission 2024). The share of financial assets in total assets has been rather low at around 9.9% in 2016 (Bańbula et al. 2017, 20). Of those financial assets, 78% are held in cash or bank deposits, with only ~ 15% held in equities (Tymoczko and Konopczaka 2024, 29).

Due to the high foreign activity in the Polish insurance sector, as well as a generally lower spending on insurance compared to Western Europe, the balance sheet of Polish insurers is rather small at €30 billion. Approximately 25% of the balance sheet is invested in equity and equity funds, with

another half invested in government bonds. The rest is split among different asset categories, notably a comparably low amount of corporate bonds, compared to the EU average (European Commission 2019d).

Hungary

Like Poland, the economy of Hungary is very bank-based, but with even weaker capital markets. The financial structure of firms is similar to that of Poland with approximately half of the financing being equity-based, but only a very small portion of 3% is based on listed shares (OECD 2025), indicating a high share of direct ownership, typically in the form of SMEs. Bank deposits to GDP are rather low at 56% of GDP in 2021 (World Bank 2025b), distributed among a comparably unconsolidated banking sector with a bank concentration of 60% (European Central Bank 2025b). The relevance of the stock market to the economy is very low, fluctuating between 10% and 20% capitalisation to GDP (World Bank 2025d). Likewise, the liquidity is rather low fluctuating between 25% and 40% value traded/capitalisation (World Bank 2025e). There have been IPOs at the Budapest Stock Exchange, but at very low numbers and with small valuations (Statista Market Insights 2025a). Generally, due to the prevalence of small businesses as well as subsidiaries of foreign companies, the demand for market capital is rather low (Piroska and Epstein 2023).

Hungary's pension system is pay-as-you-go, with the possibility of voluntary equity-based pension insurance. Like other countries with primarily pay-as-you-go systems, the demographic shift is a major challenge for the Hungarian pension system, but otherwise the system “performs well in maintaining the standard of living after retirement” (OECD 2024). At around 4%, the pension fund assets as a share of the GDP are very low (World Bank 2025c). The household saving rate is among the highest in the EU, at approximately 19%. At just over 8%, the household investment rate is slightly below the EU average (European Commission 2024). Financial assets account for ~15% of the total household assets of Hungarians, with a comparably low share of those financial

assets being held in deposits, namely 35%. Approximately 25% of the financial assets are constituted of equities, with an unusually high share of bonds among them, likely due to the tax incentives of the Hungarian government for holding government bonds (European Central Bank 2023, 22–24). The participation rate with regard to publicly traded shares is among the lowest in the EU, with 2.1% of the population reporting to own shares. The participation rate for mutual funds is also rather low at 3.5%, whilst the participation rate for bonds is relatively high at 9% (European Central Bank 2023, 15). The insurance sector in Hungary is dominated by foreign players, thus the domestic insurers are not significant institutional investors, with a total balance sheet of merely €4.7 billion, which is mainly invested in government bonds, and only a small part in equity (European Commission 2019b).

Progress towards the Capital Markets Union

Regulatory and institutional progress towards CMU

Germany, the Netherlands, Poland, and Hungary have all timely implemented the CMU-related regulations of the EU like the Markets in Financial Instruments Directive II of 2014 (Bundesanstalt für Finanzdienstleistungsaufsicht 2016; Čížek et al. 2025; AFM 2025). Regulators such as BaFin, AFM, KNF, and MNB have also adopted EU regulations like the Prospectus Regulation⁴ and the Securitisation Regulation⁵ and have established the relevant supervision. German and Dutch Financial Markets institutions were also quick to join European financial infrastructure initiatives such as the German Central Security Depository (CSD) Clearstream adopting Target2Securities (T2S) early on (Clearstream 2012). Notably, the Polish CSD is not connected to T2S, unlike those of Germany, the Netherlands, and Hungary (European Central Bank 2025a).

In terms of national legislative progress, the Scholz government pursued a modernisation of the capital market sector in Germany with the Zukunftsfinanzierungsgesetz, which aims to ease initial public offerings, introduces multiple-vote shares, and adds clarity with regards to crypto-technology (Bundesministerium der Finanzen 2023a). Notably, the law makes it easier to communicate with German financial regulators in English, which is necessary in an integrated financial market under the CMU. Furthermore, the law introduced measures such as increased tax allowances for employee saving schemes as well as employee share ownership. Those measures might formally contribute to strengthening capital markets but are not sufficient to substantially change the saving and investment preferences of German households.

A planned reform to a partly equity-based pension system that would have led to an annual investment of €10-12 billion into the capital markets failed in 2024 with the collapse of the

⁴ **The Prospectus Regulation** harmonises the prospectus procedures and requirements to allow for smoother emittance of securities across the EU (European Parliament and Council of the European Union 2017a). It replaces the Prospectus Directive of 2003.

⁵ **The Securitisation Regulation** governs securitisation activity within the EU. It includes, among others, a ban on re-securitisation (with minor exceptions) and the introduction of a framework on “simple, transparent and standardised” (STS) securitisation (European Parliament and Council of the European Union 2017b).

governing coalition (MDR Aktuell 2024). In their coalition agreement, the new coalition of Chancellor Merz commits to introduce a so-called “early-starter-pension”, where children in education receive a monthly investment of ten euros into a pension fund (CDU, CSU, and SPD 2025, 19). With the magnitude of that investment being much lower at approximately €1 billion annually, the measure itself will not have a fundamental effect on the supply of capital in German capital markets. However, it might increase the retail participation in capital markets, as the universal engagement in the capital market might increase financial literacy and spur a positive attitude towards capital markets that prompts young people to continue investing in capital markets.

The Netherlands, already having a further developed capital market has not had a similar act of legislation aimed at capital market deepening in recent years but has rather focused on smaller regulatory changes as well as increasing the resilience. With the introduction of the “Security Test of Investments, Mergers and Acquisitions Act” (Vifo Act), the Netherlands tries to prevent foreign companies from acquiring critical industries and infrastructure (Strous 2025). Albeit the measure adds red tape to the capital market sector, the prevention of (hostile) foreign involvement in critical industries and the resulting loss of steering power and knowledge is important for the stability and resilience of the economy at large.

The Polish state has made different attempts to develop the Polish capital markets. In 2019, the government published its Capital Markets Development Strategy, which laid out different measures to increase the depth and liquidity of Polish Capital Markets (Ministerstwo Finansów 2019). In an attempt to improve minority shareholder protection, the Polish government also simplified its mandatory takeover bid rules, but Regucki (2024) asserts that this change is not significant enough due to its relatively high threshold for mandatory bids. In 2025, Prime Minister Tusk announced a new economic plan focusing on investment, of which “dynamic capital markets” is one of the pillars (The Chancellery of the Prime Minister 2025). However, in his first term as prime minister,

Tusk reformed the pension system in light of fiscal troubles, weakening the equity-based second pension system pillar. While the measure has helped to stabilise the Polish debt rate, it has pulled money from capital markets (Dybal 2014). Apart from the decreased sustainability of pay-as-you-go schemes vis-à-vis ageing populations, the reduced role of pension funds as domestic institutional investors constitutes a significant weakening of Polish capital markets.

Hungary has focused on institutional consolidation, re-nationalising the Budapest Stock Exchange through the Hungarian National Bank in 2015 (Szeles and Korányi 2025). Furthermore, both the National Bank and the Budapest Stock Exchange have introduced initiatives aimed at strengthening the capital markets, such as the “Bond Funding for Growth Scheme”, under which the Hungarian National Bank is buying corporate bonds to increase the instrument’s use by Hungarian corporations. On the other hand, the Hungarian government has introduced legislation that forces institutional investors to hold higher amounts of Hungarian government bonds to decrease the financing costs of the Hungarian government (bne intellinews 2023). This has potential negative effects on capital markets, as it reduces investment autonomy and might crowd out investments in other securities. Furthermore, the 13 % social tax that was added on capital gains, might reduce retail participation in capital markets and also prompt a shift towards government bonds, which are exempt from this social tax on capital gains (Süli 2025). Whilst this added social tax makes sense from a social justice point of view (equalising tax treatment of income from work and income from capital), it might harm the development of Hungarian capital markets.

Furthermore, just like Poland, Hungary reversed the partial privatisation of the pension scheme of the late 1990s to go back to a single-pillar pay-as-you-go system in 2010. The reasons for that were similar, wanting to consolidate the budget by transferring the assets from the equity-based second pillar to the first pillar of the pension system as well as avoiding the transformation costs that come with carving out a second pillar pension component, but that were not sufficiently accounted for (Simonovits 2011). The damage to the capital markets was however less severe than in Poland, as

the second pillar was mostly invested in government bonds and thus was not an important domestic institutional investor anyway (Szikra and Kiss 2017). The focus on government bonds also resulted in low returns, thereby foregoing the potential of equity-based pension components. As Drahokoupil and Domonkos (2012) show, similar processes of shifting funds from the second pillar to the first pillar happened in most CEE countries amid fiscal troubles following the 2008 financial crisis.

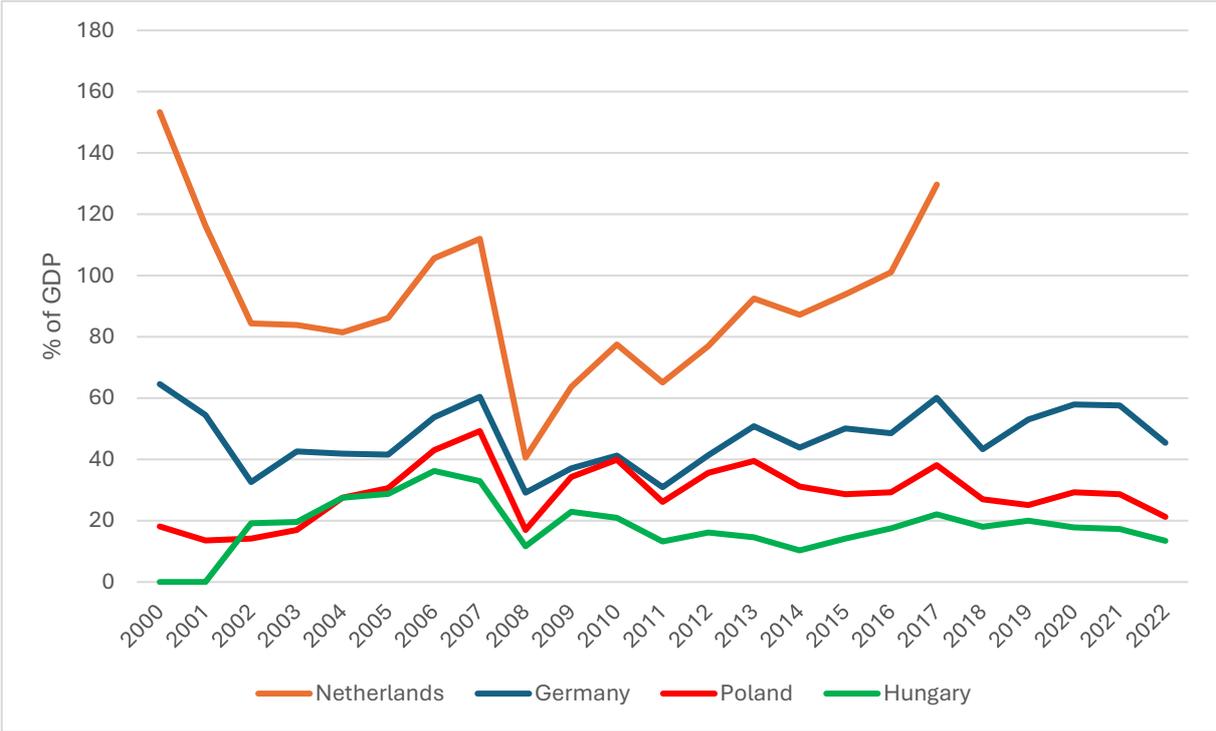
Measurable progress towards CMU

As the Capital Markets Union is both a financial development and a financial integration project, the progress thereof must be assessed on both dimensions. I will first focus on financial development before assessing financial integration.

Financial Development

On a very basic level, indicators on the market depth such as stock market capitalisation to GDP can offer insights on the development of the financial markets. In terms of stock market capitalisation (Figure 1), there have been regular periods of increases in capitalisation, especially in Germany and the Netherlands (World Bank 2025f), but these were likely mainly driven by increases in the stock values, not by fundamental changes in the underlying financing structure. Furthermore, these developments were repeatedly equalised in periods of crisis such as the market crash in the early 2000s, the 2008 financial crisis, or the 2022 energy crisis. In the past 10 years, European capital markets have lost relevance vis-à-vis other world regions, which is generally in line with the decreasing European share of the global GDP (Bierbaum, Breen, and Wright 2024, 10). The report of Bierbaum, Breen, and Wright also shows that there have been no significant changes in the funding structure of firms, or the size of the pools of capital (2024, 22–23).

Figure 1: Market Capitalisation of Listed Domestic Companies (% of GDP)



Source: World Federation of Exchanges (2025)

In their yearly CMU KPI report, the Association for Financial Markets in Europe uses different more specific indicators to measure the financial development within the EU. Their market finance indicator, measuring the share of bond and equity issuance among total financing has been roughly on the same level as in 2019, even if there has been an increase in 2023 and 2024 from a low in 2022 (Association for Financial Markets in Europe 2024a, 12). On a country level, the Netherlands saw a decrease in market finance, whilst Germany more or less stagnated. Notably, Hungary saw a stark increase in the market finance indicator, ranking third for 2024. Data for 2024 was not available for Poland, but between 2019 and 2023, Poland also saw a significant increase (Association for Financial Markets in Europe 2024a, 13). In terms of competitiveness of the domestic capital markets, the corresponding indicator increased in Hungary and Germany, whilst decreasing in Poland and the Netherlands (Association for Financial Markets in Europe 2024a).

Retail investment has shown a mixed picture in recent years. On one hand, household investment in market instruments has decreased in Germany, the Netherlands and Poland between 2019 and

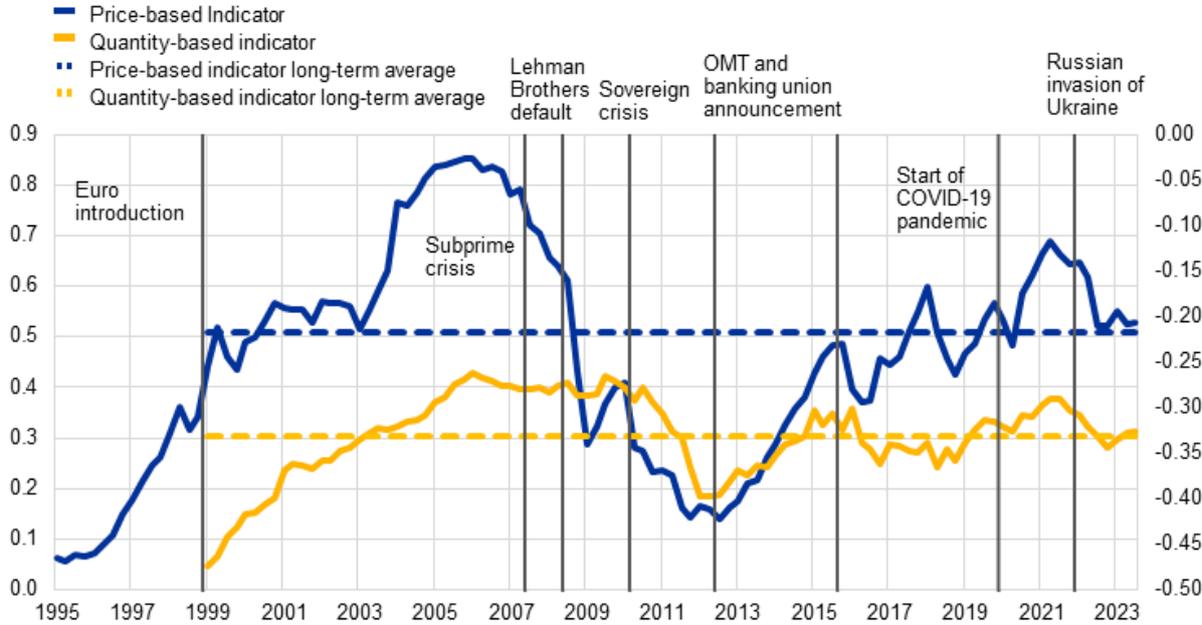
2024, only Hungary saw an increase in that indicator (Association for Financial Markets in Europe 2024a, 35). On the other hand, a notable change that could be observed in several Member States, including Germany and the Netherlands, is an increase in retail investing among young people (Fey and Gierlich 2025, 21; Elsen, Feher, and Leenen 2024, 5). This is mainly driven by digital brokers and internet investment culture during the pandemic.

Financial Integration

In their biennial “Financial Integration and Structure in the euro area” report, the European Central Bank assesses the progress of financial integration in the eurozone⁶ based on a composite price-based indicator and a composite quantity-based indicator. The price-based indicator does show a general increase in financial integration in the past 10 years, but as of 2023, the indicator is only marginally higher than the long-term average (Figure 2). It furthermore never reached the degree of integration that was apparent before the financial crisis. The quantity-based indicator is not as volatile, but it also has seen significant shifts throughout the past 25 years. The indicator is generally lower than the price-based indicator, and currently also hovers around its long-term average (European Central Bank 2024).

⁶ With Hungary and Poland, as well as several other CEE countries, not being in the eurozone, the indicators have limitations with regard to this thesis. Nonetheless, due to various interconnections between the eurozone and other Member States, and as the indicators are in themselves very relevant, they can still be a helpful measure in understanding financial integration across Europe.

Figure 2: ECB Financial Integration Indicators



Notes: The price-based composite indicator aggregates ten indicators for money, bond, equity and retail banking markets; the quantity-based composite indicator aggregates five indicators for the same market segments except retail banking. The indicators are bounded between zero (full fragmentation) and one (full integration). Increases in the indicators signal greater financial integration.

Source: European Central Bank (2024)

The AFME KPI reports measure the financial integration mainly through its cross-border finance indicator, which measures both the integration within the EU, as well as with global markets. In total, the Intra-EU integration indicator has only slightly increased between 2013 and 2024. Germany, Hungary, and Poland rank in the lower half of the indicator, whilst the Netherlands have the second-highest intra-EU integration after Luxembourg. Germany, Poland, and the Netherlands have increased their financial integration with the European markets according to the indicator, whilst Hungary saw a decrease (Association for Financial Markets in Europe 2024a).

In the global integration indicator, Germany and the Netherlands rank in the top-5 among EU Member States, whilst Poland and Hungary rank rather low. Apart from Luxembourg, the global integration is rather low for all Member States, compared to the US, the UK, Singapore, Hongkong,

or Switzerland. The overall global integration indicator for the EU has largely stagnated since 2019, with a decreasing score for Poland and Hungary, and an increasing score for Germany and the Netherlands (Association for Financial Markets in Europe 2024a).

Analysing the Risks and Benefits of the Capital Markets Union

Financial Development and Financial Integration have different dynamics in terms of where and how potential benefits and risks materialise.

Among others, financial integration is meant to lower capital costs for firms (Mitra et al. 2019), an effect that could already be seen in the beginning of the century, when the financial integration of the new Member States resulted in lower capital costs in these countries, especially for public debt, but also for debt in general (Dvorak 2007). Whilst this effect might be more pronounced for public debt, it is safe to assume that the effect also materialises for private debt, as financial integration fosters a more adequate and efficient allocation of risks, more competition, and cheaper refinancing with central banks or international banks. This is underpinned by Bossone and Lee (2004), who show the economies of scale in financial systems, concluding that larger financial systems result in higher efficiency and lower costs for the financial intermediaries active in those systems. Integrated financial systems through the implementation of the CMU and the Banking Union promise to promote these benefits of bigger financial systems.

Before the financial crisis, financial integration was high (European Central Bank 2024), but mainly through interbank lending. This interbank lending proved to be highly procyclical, thus failing to distribute risks and shocks across countries. Financial integration is nonetheless able to achieve that purpose, when lending is directly from banks to the real economy, and when the financial markets are integrated as well (Hoffmann et al. 2019). Thus, CMU and BU in lockstep can produce benefits for economic resilience across the continent.

Member States have various national approaches to capital markets (Quaglia 2010), which results in the risk that financial integration would not suit all Member States equally, or that its implementation is burdened with repeated conflict. Different scholars point towards the risks of a “28th system” of financial markets, where instead of actual integration between markets, the EU is just layering another financial system in terms of oversight, regulation, and infrastructure on top of

the national systems, thereby increasing complexity and costs instead of reducing them (Haerter 2020; Foy, Hancock, and Tamma 2024). Furthermore, with most big financial institutions being headquartered in Western European Member States, the profits of the financial sector would not be spread evenly. However, the distribution of the benefits for the real economy is much more relevant than the distribution of the financial sector profits. Despite the risk of overregulation, financial integration benefits promise to outweigh its risks, as integration in other economic sectors has generally led to overall productivity.

According to many scholars (Levine 2004; 2003; Beck and Levine 2004; Madsen and Ang 2016; Grimm et al. 2023) financial development promises to result in growth for the overall economy. This effect should be more pronounced in economies that are dominated by banks and that have underdeveloped financial markets. Economies like Germany or the Netherlands with more developed financial markets should thus relatively benefit less, as the potential for further development is lower. As they are nonetheless quite bank-based, financial development still has the potential to unleash additional growth. Furthermore, the size of their economies and the economic structure consisting of many large firms ensures that these economies can best utilise the opportunities of financial development. CEE countries like Hungary and Poland should in theory have a high growth potential through financial development, due to their underdeveloped markets. However, for that to happen, financial development would have to fit the economic structure, which is not the case (Piroska and Epstein 2023, 188–94). CEE countries typically have a high degree of very small enterprises, which are not big enough to engage with capital markets, as well as subsidiaries that are connected to the capital markets through their Western European parent companies. Thus, capital markets will continue to be less relevant in Eastern Europe, with the CMU thus having a lesser effect on economic growth in those countries.

Nonetheless, it would be too simple to label financial development as a futile endeavour outside of the main Western European markets, especially in Poland, which is one of the largest Member

States in terms of GDP and population, and that has seen growth rates in excess of most other Member States. A stronger role of capital markets in that region must not necessarily be misaligned with the economic structure but can result in real benefits, as long as banks continue to play an important role in financing the economy. Given the low levels of financial development, even significant increases in capital market activity would not result in dethroning the banks as the main financiers, thus keeping the risks for those companies that are dependent on banks minimal. The fact that the CEE countries have a high portion of subsidiaries active in their economies also need not be an argument against the CMU, as even if they would not raise capital on the domestic capital markets, they would still profit if their parent companies have better access to capital on integrated capital markets.

Furthermore, with the integration of CEE countries into the value chains of major Western European economies, they have an economic interest for those countries to have a thriving economy, as they can expect to reap secondary economic benefits. The GDP of Central and Eastern European countries is based to a high degree on exports, (Eurostat 2025), these exports are mostly to other EU Member States (Eurostat 2024), most importantly Germany, with whom most CEE countries incur a trade surplus (Eurostat 2024). As Bohle writes, the recovery for Visegrád countries, specifically Slovakia and the Czech Republic, was aided by the quick and strong recovery of the German economy (2018). If CMU for example would be able to boost Germany's ailing economy, this would certainly also help other EU Member States.

Conclusion

This thesis has shown that there has been some legislative progress towards integrated capital markets, but of no scope that could significantly alter the financial structure in Europe. Additionally, there have also been reforms that have weakened capital markets. In terms of measurable progress, there have been increases in financial integration in recent years, however, these increases do not surpass the integration levels of previous peaks of financial integration and do not point towards a significant and sustainable change in terms of financial integration.

The outlook for potential benefits from CMU is mixed: In terms of financial integration, there are risks of overregulation and misaligned policy, but generally, the effects can be expected to be positive and lead to additional funding and investment opportunities, as well as increased resilience of the European economy due to the better distribution of risks and economic shocks. In terms of financial development, big Western European economies, which have developed financial markets but are nonetheless relatively bank-centric, can expect to reap significant benefits for their economies if they reduce their reliance on bank capital. The countries with less developed financial markets, and generally smaller economies, cannot expect this growth potential as strikingly. Whilst there might be some added financial opportunities, they might also be exposed to additional risks. Nonetheless, these countries could still expect to profit from secondary effects through the additional funding opportunities of Western European parent companies, or through the transfer of growth from Western to Eastern Europe due to interconnected value chains. It is important to note, that these benefits however are transitory, and no significant structural benefit to Eastern European economies is achieved through the CMU.

Whether benefits or risks will dominate in Eastern European markets is difficult to foresee and largely depends on the specific steps taken by the EU and national governments. Further research could attempt to quantitatively approximate these effects to arrive at a more exact estimation of the risk-benefit profile. What is clear is that the benefits of CMU will not be equally spread and

that CMU is mainly a project to increase the competitiveness of big European economies vis-à-vis international competitors. However, an unequal distribution of benefits of a specific integration project towards one set of Member States need not be a knock-out argument against that specific integration project, as long as it does not do disproportionate harm to the other Member States, and as long as European integration in general is of benefit to all Member States.

Thus, if specific attention is put on the needs of CEE countries in the integration project, the Capital Markets Union is worthwhile to pursue, as it might deliver a necessary boost for European economies. However, for the Capital Markets Union to be a success, it needs to go hand in hand with the Banking Union, to achieve a fully integrated financial system in Europe. Nonetheless, we should not overestimate the effect of the CMU, as much of the EU's growth potential rests with other reforms and integration projects in research & development, infrastructure, the single market, or public investment. As Sebastian Mack and Johannes Lindner (2024) of the Jacques Delors Centre write “the CMU is no panacea for all the EU's investment needs.”

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